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August 10, 1988

To: Members of the Executive Board

From: The Acting Secretary

Subject: Recent Developments in Commercial Bank Financing and Restructuring for Developing Countries

The attached paper on commercial bank financing and restructuring for developing countries provides background material for the Executive Board discussion on issues in managing the debt situation (EBS/88/159, 8/4/88) scheduled for Friday, August 26, 1988.

Ms. Atkinson (ext. 7359) or Mr. Regling (ext. 7358) is available to answer techncial or factual questions relating to this paper.

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Recent Developments in Commercial Bank Financing and Restructuring for Developing Countries

Prepared by the Exchange and Trade Relations Department

Approved by H.B. Junz

August 5, 1988

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Recent Developments in Commercial Bank Financing and Restructuring for Developing Countries

I. Introduction

This paper provides background information for the report on "Issues in Managing the Debt Situation" (EBS/88/159, 8/4/88) to be discussed by the Executive Board on August 26, 1988. It analyzes in greater detail selected topics discussed in that report, in particular the development of new debt instruments in the context of debt restructuring packages and the impact of the tax and regulatory environment on the use of these instruments. It also provides information on lending to developing countries, secondary market developments, and recent concerted financing packages.

The paper is organized as follows. Section II provides an overview of recent developments in capital market financing for developing countries, including a review of bank financing packages in 1988 for countries experiencing debt servicing difficulties. The development of market-based financing options and new instruments to facilitate debt management is reviewed in Section III, while Section IV examines the regulatory and tax environment.

II. Recent Developments in Lending and Bank Financing Packages

Commercial banks have increasingly indicated unwillingness to continue general purpose medium-term finance for heavily indebted countries with debt servicing difficulties, while a number of debtors also question increasing indebtedness. Banks tend to favor special purpose project lending, trade finance, lending in conjunction with domestic industrial clients, and cofinancing with the World Bank and other development banks, rather than general balance of payments financing, including traditional new money. In addition, many are concerned to limit exposure increases of any type to these countries and some, as described in Section III, have engaged in secondary market operations to reduce their claims.

As the restructuring process has evolved, many banks are reorganizing themselves to establish restructuring departments, so that their financing of developing countries with debt servicing difficulties may be dealt with separately from other international lending. The restructuring departments generally have three main functions: negotiation and documentation of refinancing agreements; day-to-day management of operations such as onlending and relending, and trade finance, that may be developed with debt restructuring; and asset management, including the disposal of claims through sales and swaps.

1. Bank lending and bond finance

Capital market financing of developing countries, excluding offshore centers, recovered somewhat in the second half of 1987 from the depressed levels of 1986 and early 1987. However, in the first quarter of 1988, bank claims declined again. The 1987 recovery in total bank lending to developing countries was concentrated in Asia, while an increase in claims on the group of 15 heavily indebted countries was more than accounted for by the accumulation of interest arrears by a few countries. Some of the arrears were settled in conjunction with new lending packages before the end of the year.

In 1987 as a whole, bank claims on all developing countries, excluding offshore centers, rose by $16.5 billion, of which $1.9 billion was to countries with debt servicing problems (Appendix Table 5). Claims on the 15 heavily indebted countries increased by only $1.6 billion, notwithstanding concerted lending to Mexico of $4.4 billion and Argentina of $1.3 billion. In 1986, claims on these countries fell by $1.3 billion. Debt conversions (estimated at $4 1/2 billion in 1987) and debt sales by creditor banks to nonbanks, reduced bank claims on the heavily indebted countries. In the first quarter of 1988, developing countries as a whole repaid $5.2 billion to banks, compared to net borrowing of US$1.1 billion in the corresponding period of 1987; the group of 15 heavily indebted countries repaid $1.9 billion, despite disbursements under concerted lending of $1.7 billion.

In the first half of 1988, new commitments for concerted lending amounted to $5.7 billion, compared with $2.5 billion in all of 1987 (Appendix Table 6). The bulk of this represented the agreement in principle between Brazil and its bank creditors on a medium-term financing package of $5.2 billion; Yugoslavia also reached agreement in principle on a package involving $300 million in new commitments from commercial banks in April 1988. Côte d'Ivoire reached an understanding with its bank advisory committee on a concerted lending package of about $150 million in February 1988, but recent interest payments have not been made, and the package was stalled as of mid-1988.

During the first six months of 1988, agreement in principle, or final agreement, was reached on the restructuring of $72 billion of long-term debt (Appendix Tables 7 and 8). The largest amount was in Western Hemisphere countries, with Brazil's MYRA covering $61 billion.

Gross international bond issues by borrowers in developing countries (excluding offshore centers) continued to decline in 1987, but recovered in early 1988. The share of issues by developing countries in total international issues remained steady in 1987, at a little over 2 percent, but their total volume of issues declined by some 14 percent to $4.2 billion. During the first quarter of 1988, developing country issues almost doubled relative to the same period in 1987, to $2.1 billion, largely reflecting borrowing by Hungary, Malaysia, Portugal, and Turkey.

Terms on new concerted bank lending commitments and debt restructurings remained fairly stable in the first part of 1988, after their marked improvement for debtors during 1985-86 (Table 1 and Appendix Table 9). In general, terms have been more favorable for larger than for smaller debtors; on restructured debt compared to new money; and on spontaneous than on concerted new commitments. However, during January-June 1988, two smaller debtors renegotiated more favorable terms on previously agreed MYRAs (Uruguay, Chile) bringing spreads closer into line with those for the larger debtors. Moreover, a decline in spreads on concerted new commitments (reflecting the impact of the low spreads on Brazil's large new money loan) brought these to the average level of the spreads on restructured debt.

Average spreads under restructuring agreements increased slightly to 83 basis points during the first half of 1988, after having fallen steadily from a high of 194 basis points in 1983 to 80 basis points in 1987. The easing of spreads on restructured debt has been particularly marked for Western Hemisphere countries, where these spreads averaged 82 basis points in the first half of 1988, compared with almost 200 basis points in 1983. By contrast, in Africa the spreads on recent reschedulings averaged 125 basis points compared with 160 basis points in 1983. Spreads on concerted commitments during January-June 1988 declined to 83 basis points, compared to 90 basis points during 1987, and thus remained significantly below the average of 225 basis points recorded in 1983. The difference between spreads on spontaneous and concerted commitments for developing countries narrowed from 100 basis points in 1985 to 41 basis points in 1987. Information is not yet available on the terms of spontaneous commitments in the second quarter of 1988; average spreads on spontaneous commitments in the first quarter were less than 30 basis points below spreads on the concerted commitments in January through June.

The reduction in spreads on concerted financing packages has generally reflected a recognition of debtors' impaired debt servicing capacity rather than an improvement in creditworthiness. A rough indication of more market-related yields on bank loans to countries with debt servicing problems may be obtained from the secondary market prices for developing country bank loans, although the thinness and illiquidity of the secondary market indicates that prices should be treated with great caution. Yields on discounted bank claims--calculated by average secondary market prices of bank debt for the 15 heavily indebted countries--reached 14 percent in 1987 and 17 percent in the first half of 1988. 1/

1/ These yields to maturity were calculated from discounts of more than 40 percent in 1987 and 50 percent in January-June 1988, based on the average 6-month LIBOR in these periods and a spread of 1 percent, and an assumption that bank loans are viewed as perpetual claims. The yield to maturity would be higher if the principal were assumed to be repaid according to contractual terms.

Table 1. Terms of Selected Bank Debt Restructurings and Financial Packages, 1983-First Half 1988 1/

Country	Year of Agreement	Type of Transaction	Grace Period (In years)	Maturity (In years)	Interest Rate (In percent spread over LIBOR/U.S. Prime)	Fees (In percent)
Argentina	1983	New financing	3	4 1/2	2 1/4-2 1/8	1 1/4
	1984	Restructuring	3	10 to 12	1 3/8	—
		New financing	3	10	1 5/8-1 1/4	5/8
	1987	New financing	5	12	7/8	3/8 2/
		New financing 3/	—	4	7/8	3/8 2/
		Restructuring 4/ 5/	7	19	13/16	—
		Restructuring 4/ 5/	5	12	13/16	—
Brazil	1983	Restructuring	2 1/2	8	2 1/4-2	1 1/2
		New financing	2 1/2	8	2 1/8-1 7/8	1 1/2
	1984	Restructuring	5	9	2-1 3/4	1
		New financing	5	9	2-1 3/4	1
	1986	Restructuring	5	7	1 1/8	—
	1988	Restructuring 5/	7	19	13/16	—
		New financing 6/	5	12	13/16	3/8 2/
		New Financing 3/	9	9	13/16	3/8 2/
Chile	1983	New financing	4	7	2 1/4-2 1/8	1 1/4
		Restructuring	4	8	2 1/8-2	—
	1984	New financing	5	9	1 3/4-1 1/2	5/8
	1985	Restructuring	6	12	1 3/8	1/8
		New financing	5	10	1 5/8-1 1/4	1/2
	1987	Restructuring 4/ 5/	3	5	1 1/8	—
		Restructuring 5/ 7/	5	15 1/2	1	—
	1988	Restructuring 4/ 5/	5	15	13/16	—
		Restructuring 3/ 4/	3	5	7/8	—
Cote d'Ivoire	1984	Restructuring	2	7	1 7/8-1 5/8	1 1/4
		Restructuring	3	8	1 7/8-1 5/8	1 1/4
		New Financing	3	7	1 7/8-1 5/8	1 1/4
	1986	Restructuring 5/	3	9	1 5/8-1 3/8	—
	1988	Restructuring 5/	5	14 1/2	1 1/4	1/2 2/
		New financing	4	8	1 1/2	3/4 2/
Dominican Republic	1983	Restructuring	1	5	2 1/4-2 1/8	1 1/4
	1985	Restructuring 5/	3	13	1 3/8	—
Ecuador	1983	Restructuring	1	7	2 1/4-2 1/8	1 1/4
		New financing	1 1/2	6	2 3/8-2 1/4	1 1/4
	1985	Restructuring 5/	3	12	1 3/8	—
		New financing	2	10	1 5/8-1 1/4	—
	1987	Restructuring 8/	3	10	1	
		Restructuring 9/	7	19	15/16	
		New financing	2	8	1	1/2-1/8 2/
Mexico	1983	Restructuring	4	8	1 7/8-1 3/4	1
		New financing	3	6	2 1/4-2 1/8	1 1/4
	1984	New financing	5 1/2	10	1 1/2-1 1/8	5/8
		Restructuring 5/	0 to 1	14	7/8 in 1985-86	—
					1 1/8 in 1987-91	—
					1 1/4 in 1992-98	—
	1986	Restructuring 5/	7	20	13/16	—
		New financing	5	12	13/16	—
		New financing 10/	7	12	13/16	—
		New financing 11/	4	8	13/16	—

Table 1 (Concluded). Terms of Selected Bank Debt Restructurings and Financial Packages, 1983-First Half 1988 1/

Country	Year of Agreement	Type of Transaction	Grace Period (In years)	Maturity (In years)	Interest Rate (In percent spread over LIBOR/U.S. Prime)	Fees (In percent)
Philippines	1984	Restructuring	5	10	1 5/8	—
		New financing	5	9	1 3/4-1 3/8	1/2
	1987	Restructuring 5/	7 1/2	17	7/8	—
		Restructuring 5/ 12/	6	10	1 3/8	—
Uruguay	1983	Restructuring	2	6	2 1/4-2 1/8	1 3/8
		New financing	2	6	2 1/4-2 1/8	1/2
	1986	Restructuring 5/	3	12	1 3/8	—
		Restructuring 4/5/	3	12	1 5/8	—
	1987	Restructuring 4/ 5/	3	17	7/8	—
Venezuela	1984	Restructuring 5/	—	12 1/2	1 1/8	—
	1987	Restructuring 4/	—	13	7/8	—
Yugoslavia	1983	Restructuring	3	6	1 7/8-1 3/4	1 1/8
	1983	New financing	3	6	1 7/8-1 3/4	1 1/8
	1984	Restructuring	4	7	1 5/8-1 1/2	7/8
	1985	Restructuring 5/	4	10 1/2	1 1/8	—
	1988	Restructuring 5/	5	18	13/16	—
		New financing	5	5	7/8	1/4 2/

Sources: Restructuring agreements.

1/ Classified by year of agreement in principle.
2/ Early participation fee.
3/ New trade credit and deposit facility.
4/ Amendment to previous reschedulings or new money packages.
5/ Multiyear debt restructuring agreement.
6/ New money bonds, and parallel and cofinancing with the World Bank.
7/ Amendments to 1983-87 restructuring agreement and 1988-91 unrescheduled original maturities.
8/ Restructuring of maturities under the 1983 and 1985 new money agreements.
9/ Restructuring of maturities under the 1985 MYRA and other refinancing agreements.
10/ Growth contingency cofinancing with the World Bank.
11/ Contingent investment support facility.
12/ Of private financial and private corporate sector debt, except for private corporate sector debt due in 1990-92 under the 1985 restructuring agreement. The latter maturities are restructured at public sector terms.

While the longer run trend since 1983 toward lower spreads on restructured debt and new money for countries with debt servicing difficulties has persisted, more recent bank packages have introduced some price incentives. In concerted financing packages agreed during 1987-88 for Argentina, Brazil, Côte d'Ivoire, Ecuador and Yugoslavia, banks were offered an upfront fee for early participation. In addition, in the case of Chile the reduction in spreads now being proposed has been made explicitly conditional on the country refraining from requesting new concerted lending, while Uruguay, which also obtained a reduction in spreads, has not requested a traditional concerted new money package since 1983. In the Mexican debt exchange the spread on bonds that was being offered in exchange for the bank loans was set at twice that for the loans (1 5/8 percent against 13/16 percent) in order to facilitate the voluntary exchange.

Average maturities under restructuring agreements lengthened further during January-June 1988 after having increased from about 7 1/2 years in 1983 to about 15 years in 1986-87. The average maturity on restructured bank debt was 18 years on the 6 packages agreed so far in 1988. From 1983 to 1986, average maturities under concerted lending increased from 6 1/2 years to 10 1/2 years.

2. Recent bank financing packages

The menu approach, which provides flexibility for both creditors and debtors, has been further developed in recent financing arrangements. New instruments, pricing arrangements and the modification of some clauses in syndicated loan agreements that bind all parties to similar terms have reflected a move toward the recognition of divergent interests among creditors and a search for ways that financing may be tailored to reflect these. This section reviews the development of recent individual financing packages, with particular reference to the terms of the agreements, linkages to the Fund, bank cohesion, and the spread of arrears (Appendix Tables 10 and 11).

During the first half of 1988, Chile reached agreement in principle and Uruguay signed an agreement with bank creditors on the amendment of earlier restructuring packages, while Malawi reached agreement in principle on a new rescheduling and earlier agreements were finalized for three countries (Gabon, The Gambia, and Morocco). Agreement in principle on a package involving new money was reached by Brazil and Côte d'Ivoire, and a critical mass of bank commitments was obtained by Ecuador and Yugoslavia. However, serious delays have since arisen in the cases of Côte d'Ivoire and Ecuador.

Chile reached a new agreement in principle with its commercial bank advisory committee in April 1988 to amend previous debt agreements to improve the terms on the MYRA and provide for greater flexibility in debt management policies. This agreement appeared to reflect banks' response to Chile's good payments record, the substantial adjustment that has occurred since 1982 and improvement in debt servicing capacity,

as well as the expected absence of a new money request in the period immediately ahead. It included a reduction in spreads on most bank debt (from 1 percent over LIBOR to 13/16 on rescheduled debt, and from 1 1/8 percent to 7/8 percent over LIBOR on the new money packages of 1983 to 1985) that put Chile's terms in line with those of major debtors. The fee paid by banks on the World Bank guarantee under the 1985 cofinancing has been reduced by a quarter percent to facilitate the reduction in spreads. Under the agreement, Chile committed itself not to ask for new money "on a concerted basis" before the end of 1989. Should it do so, spreads and guarantee fees would revert to their previous level. Innovative features of the new agreement are described in detail below, in Section III.

In March 1988, Uruguay reached agreement on significant changes in its July 1986 MYRA with commercial banks that restructured the bulk of outstanding bank debt (about US$1.7 billion). The latest agreement changed the MYRA from a serial MYRA, with agreement to be reached on successive annual reschedulings, to a block MYRA where all maturities were rescheduled at the outset. It extended the amortization schedule of both past and future maturities and covered, in addition, maturities falling due in 1990 and 1991--the only portion of Uruguay's commercial bank debt not previously rescheduled (US$100 million). The spread was reduced to a uniform 7/8 percent over LIBOR. As a result of these changes, interest obligations were reduced by about US$10 million a year and the first amortization payments under the MYRA were deferred until 1991. Uruguay has not sought concerted new money from commercial banks since 1983; it obtained a $45 million nonconcerted loan under a cofinancing arrangement with the World Bank in conjunction with the original MYRA in 1986.

A notable feature of recent financing packages has been that a number of countries have resorted to a temporary buildup in interest arrears as a way of obtaining financing. Three of the concerted new money packages agreed during the past year have followed such an increase in interest arrears and have been designed to regularize these arrears (Brazil, Ecuador, and Cote d'Ivoire). This has represented a major shift from the early years of the debt crisis, when countries generally continued to pay interest while negotiating for new money and where the size of the financing gap and thus the new money package was not linked explicitly to the level of interest payments due. It may involve a cost to debtors as well as creditors if it leads to a reduction in other bank lending, such as trade credits.

In June 1988, Brazil reached agreement in principle with its major commercial bank creditors on a package involving new finance of US$5.2 billion, a reduction in spreads to 13/16 over LIBOR, comparable to spreads agreed with other major debtors; a retiming of interest payments on public sector debt from a quarterly to a six monthly basis, estimated to yield about $600 million; and the refinancing of $61 billion of commercial bank debt falling due until 1993 with a grace period of 7 years and a maturity 19 years. The new financing is comprised of a

parallel financing facility with the World Bank of $2.85 billion, two cofinancing loans with the World Bank of up to $0.75 billion together, up to $1 billion in new money bonds and up to $0.6 billion in a medium term trade deposit facility. An early participation fee of 3/8 percent was agreed. In essence, the new financing is of a traditional medium-term nature, although the form of the new money facilities--including the links to the World Bank and the new money bonds--is more differentiated than previously.

The agreement also provides for the use of some new financing instruments--including an expanded debt/equity conversion scheme that favors banks that participate in the new concerted lending, debt-to-debt exchanges, and exit bonds. The details of some of these proposed conversions have yet to be worked out, however. Exit bonds (Brazil Investment Bonds) may be issued in a maximum of $15 million per bank for a total of $5 billion; with a fixed interest rate of 6 percent, 25 year maturity and 10 years grace. These bonds are eligible for debt-equity conversion and can be exchanged at par into indexed cruzado-denominated Brazilian treasury obligations (OTN).

A further new element in the Brazil agreement was a shift in the base date determining banks' contribution to the new money facilities. Erosion of the original 1982-83 base date exposure has in general added to the difficulty in obtaining full participation in new financing packages. In this case, the exposure date has been moved to March 31, 1987, in effect legitimizing the exit of banks that had reduced exposure before that date. All debt converted into equity with the approval of the Central Bank has been excluded from the new money base, as is becoming a general practice. Moreover, exposure reductions between March 1987 and July 15, 1988 through debt/equity swaps, early repayment agreements, local currency repayment, or through loan sales or swaps where the new holders of the claims assume responsibility for associated new money contributions, will also reduce a bank's "base exposure" and new money contribution. Banks that have contributed to concerted new money packages and trade facilities will not be additionally penalized as the base exposure is defined to exclude any such lending since January 1, 1983.

A major issue in the new financing package was the nature and timing of the linkage to the Fund and the World Bank. Brazil agreed with creditor banks that the signing and effectiveness of the bank agreement would proceed in parallel with the approval by the Fund of a stand-by arrangement. The arrangement was approved in principle by the Executive Board in July, 1988 and is expected to enter into effect after a critical mass of participating banks has agreed to the financing package.

Notwithstanding this parallelism, the bank agreement does not contain direct linkage of each disbursement to each drawing under a Fund arrangement as has characterized most concerted bank lending. The second tranche of new money, which will be tied directly to World Bank

loans, will be conditioned on a status report from the Managing Director on the Brazilian economic program supported by the stand-by arrangement, confirming that Brazil is "proceeding with its economic program and is making progress toward achieving the goals established in its program." The third and final tranche will consist of drawdowns under the two cofinancings, each of which will be conditional upon disbursement under the corresponding World Bank loan. In addition, the bank disbursement will require that Brazil has made the second conditional purchase under the stand-by arrangement and either has made, or may make, the third purchase as originally scheduled. A majority of 85 percent of bank creditors may waive this condition. A covenant in the agreement requires that Brazil make the full amount of Fund purchases as it becomes authorized to do so. Another clause appears to preclude early repayment to the Fund as Brazil could be required to prepay its bank loans pro rata if it makes early repayments to other creditors, including the Fund.

Ecuador has been another case where new money ($350 million) under a recent financing agreement was essentially to refinance interest arrears. Since a "critical mass" of bank commitments was obtained in January 1988, commercial banks have made little progress in finalizing the new money package. As part of the agreement, Ecuador resumed payment of interest obligations in November 1987, but by early 1988 payments were again suspended. Difficulties in mustering support from all banks for the package led the Chairman of the Steering Committee to propose in May 1988 that the loan be closed at $330 million, with participation from banks holding only 94 percent of the debt. The authorities were reluctant to accept the reduced amount and are now seeking additional bank financing for 1988.

Difficulties in obtaining financing also arose in the case of Côte d'Ivoire which was also seeking a concerted loan to refinance interest arrears. In this case, it was intended to tackle the expected refusal of some banks to subscribe to a new money loan ($150 million) with a new legal approach to overcome the "free rider" problem. All banks were offered the options of providing new money and participating in the debt rescheduling; taking exit bonds with an interest rate of 5 percent, a maturity of 25 years and a grace period of 12 years; or effectively capitalizing interest in arrears at end-1987. Creditor banks were required to sign the concerted financing package before joining the rescheduling package and existing loan contracts were to be replaced by a new loan, essentially lifting out some banks from the original agreements. This "novation" was designed to minimize the possibility of law suits by banks party to the old agreements, but unwilling to provide new money to regularize interest payments. It was considered feasible in this case because the agreements are under French law. Under the agreement in principle, reached in February 1988, Côte d'Ivoire was to resume payment of interest from April 1988. However, interest payments were not made in May and June, and the process of obtaining agreement to the financing package has stalled.

In another case of interest arrears, Costa Rica has been involved since mid-1987 in negotiations with commercial banks on a financing package that would include a rescheduling of principal as well as financing of interest arrears. The authorities are seeking financing features that would, at least temporarily, permit a reduction of the debt servicing burden. A Fund program was approved in October, 1987 that envisaged a temporary accumulation of arrears to commercial banks and to official bilateral creditors while negotiations were being completed. A review of the program, including progress in obtaining external financing, is scheduled for early August.

In the case of Yugoslavia, understandings have been reached with commercial banks on a new concerted loan without a prior accumulation of interest arrears. However, the bank package, agreed in principle in April 1988, does not include a traditional medium-term loan but rather the provision of new finance through a short-term trade facility. The new $300 million revolving facility is based on equiproportionate contributions from creditor banks. The funds will be freely disposable to the National Bank of Yugoslavia until June 30, 1990. Thereafter, deposits in the facility will be available to creditors as collateral against short-term trade credits of up to 180 days. The facility has a five year maturity, with repayment generally due by end 1993. The spread of 7/8 percent over LIBOR is higher than that for Brazil and Mexico, but the same as the spread on Argentina's 1987 new medium-term loan. The financing package included an early participation fee of 1/4 percent for amounts committed before end-June 1988. It provides for a variety of debt exchange options, including debt/equity swaps, debt/bond swaps and debt/commodity swaps. However, a constitutional amendment will be required to allow private ownership of equity under a debt/equity swap. In addition, the package includes long-term "exit bonds" with a fixed interest rate of 5 3/4 percent and maturity and grace periods of 20 years and 10 years, respectively.

Morocco experienced difficulty in obtaining all signatures for its rescheduling agreement. In this case, a new rescheduling agreement was drawn up between Morocco and participating banks, effective in January 1988, without the participation of one recalcitrant bank. The nonparticipating bank will, nonetheless, receive payments as if it had participated in the new agreement, which itself is conditional upon the nonparticipating bank receiving no more favorable treatment than the participating banks.

In addition to the concerted packages described above, two financing agreements were reached in the first half of 1988 that included elements of spontaneous financing. A $1 billion "quasi-spontaneous" bank loan for Colombia was finalized in early January 1988, with a first disbursement of $685 million in May 1988. Although organized by an advisory committee of banks, the loan was not based on equiproportionate participation by all creditor banks. This loan was preceded by a concerted loan for $1 billion in 1985. In February 1988, Venezuela placed a $100 million 5-year fixed-rate issue of Eurobonds, yielding 3 1/2 percent above the United States Treasury note rate.

III. Evolution of Market-Related Financing Techniques

Recent commercial bank financing packages have involved a number of new financing instruments and techniques (Table 2). The expansion of the secondary market in developing country bank loans, together with sharp declines in prices in this market over the past year, has encouraged the development of techniques that may allow debtors to benefit from the reduced value put on their debt in this market; and allow banks to diversify their claims on these countries or to exit, within in the framework of the debt strategy, from lending to a particular country. As spreads on restructured debt have declined, new instruments have also provided banks an opportunity for more profitable fee-based transactions. These techniques include debt/equity and other conversions, buy-backs, and debt exchanges. In addition, developing countries have begun to explore the use of techniques of risk management for their bank debt.

The development of financing innovations has been importantly influenced by the different national regulatory and tax environments. Those issues are discussed in more detail in Section IV. This section focuses on the secondary market for bank claims on developing countries, including recent price developments; the financing techniques that have arisen partly as a result of this market--most commonly debt conversion schemes, but also debt buy-backs and exchanges; and finally on the risk management techniques that may be used by heavily indebted countries.

1. Secondary market in developing country debt

The secondary market for developing country debt that emerged since 1982 has expanded notably in 1987-88, at the same time as the prices for most countries' debt moved considerably. Nevertheless, this market remains rather illiquid, with high turnover reflecting the difficulties associated with matching supply and demand in the heterogeneous market, rather than high liquidity. Frequently, a chain of transactions is required in order to match final users of the loan claims with the type of claim that they require and in the amount needed. Although some market participants are now developing standardized documentation, at present each transaction is time-consuming and requires complex documentation. A detailed description of the market is contained in "Information Note on the Secondary Market, Mexican Debt Exchange and Bolivian Buy-Back," (EBS/88/98, 5/23/88).

Market activity is concentrated in relatively small transactions for only a few major debtor countries. Larger transactions, or even small transactions for less actively traded paper, are difficult to arrange and may take several months. Initially, secondary market transactions were mainly engaged in by banks that wished to rearrange their portfolios. Banks in industrialized countries used the market to swap out of countries where they felt less prepared to manage the risks and to increase exposure in countries where they had more business interests. Banks in debtor countries in Latin America also used this

Table 2. Financing Instruments and Options in New Money Packages (NM) and Restructurings of Bank Debt (R) of Selected Developing Countries, 1983-88 1/

Country	Currency (Re)denomination	Interest Rate Options 2/	On-lending/ Relending	New Trade Facilities	Debt Conversions 3/	World Bank Cofinancing/ Parallel Financing	Retiming	New Money Bonds	Exit Bonds	Early Participation Fees	Debt Buybacks	Debt Exchanges 4/
1988												
Brazil	NM,R	NM,R	NM,R	NM	NM,R	NM 5/	R	NM	R	NM		R
Chile	R	R	R		R		R	R			R	R
Cote d'Ivoire	NM,R	NM,			R				R	NM,R		
Yugoslavia	NM,R	NM,R		NM	R				R	NM		R
1987												
Argentina	NM,R	NM,R	NM,R	NM	NM,R	NM 5/	R	NM	R	NM		
Bolivia											R	R
Chile	R	R	R		R		R					
Ecuador	NM,R	NM,R	R		NM,R	NM 5/	R	NM	R			
Philippines	R	R	R		R							
Venezuela	R	R	R		R							
1986												
Brazil	R	R	R		R							
Mexico	NM,R	NM,R	NM		NM,R	NM 6/						
Nigeria	NM,R	NM,R			R							
1985												
Chile	NM,R	NM,R	NM,R		NM,R	NM 6/	R					
1984												
Argentina	NM,R	NM,R	NM	NM								
Brazil	NM,R	NM,R	NM,R									
Chile	NM	NM										
Mexico	NM	NM										
Philippines	NM,R	NM,R	NM 7/									
Venezuela	R	R	R									

Table 2 (Concluded). Financing Instruments and Options in New Money Packages (NM) and Restructurings of Bank Debt (R) of Selected Developing Countries, 1983-88 1/

Country	Currency (Re)denomination	Interest Rate Options 2/	On-lending/ Relending	New Trade Facilities	Debt Conversions 3/	World Bank Cofinancing/ Parallel Financing	Retiming	New Money Bonds	Exit Bonds	Early Participation Fees	Debt Buybacks	Debt Exchanges 4/
1983												
Argentina	NM	NM										
Brazil	NM,R	NM,R	NM,R									
Chile	NM,R	NM,R										
Mexico	NM,R	NM,R										

Sources: New financing and restructuring agreements.

1/ Classified by year of agreement in principle.
2/ LIBOR and domestic floating rate options or fixed rate options.
3/ Includes debt/equity and debt/domestic debt conversions.
4/ Includes debt/bond, debt/export and debt/debt exchanges.
5/ Parallel financing.
6/ Guarantees.
7/ Revolving short-term trade facility.

market to reduce cross-border exposure by swapping loans to other countries for loans to borrowers in their home country.

The cash segment of the market has grown as debt conversion and debt settlement arrangements promoted or sanctioned by debtor countries have become more important. A number of debtors, as described in the following section, have established debt conversion schemes under which debt claims that may have been purchased at a discount in the secondary market are exchanged for equity investments or for other debt instruments. Cash demand has arisen from these schemes, as nonresident corporations or investors that may wish to finance their direct investment through debt/equity swaps must acquire loans in order to carry out debt conversion transactions. Cash sales enable banks to exit, albeit at a loss, from involvement in a particular country.

Private sector nonbank residents of debtor countries have also employed debt conversion schemes as a profitable means to repatriate capital, and subsidiaries of banks from debtor countries have reportedly made purchases in the market. It also appears, according to market sources, that some public sector enterprises have carried out transactions to cancel or retire debts at less than face value. This may happen through debt settlements arranged by borrowers that use foreign exchange to buy back their debt at a discount, either directly, or indirectly through loan swaps.

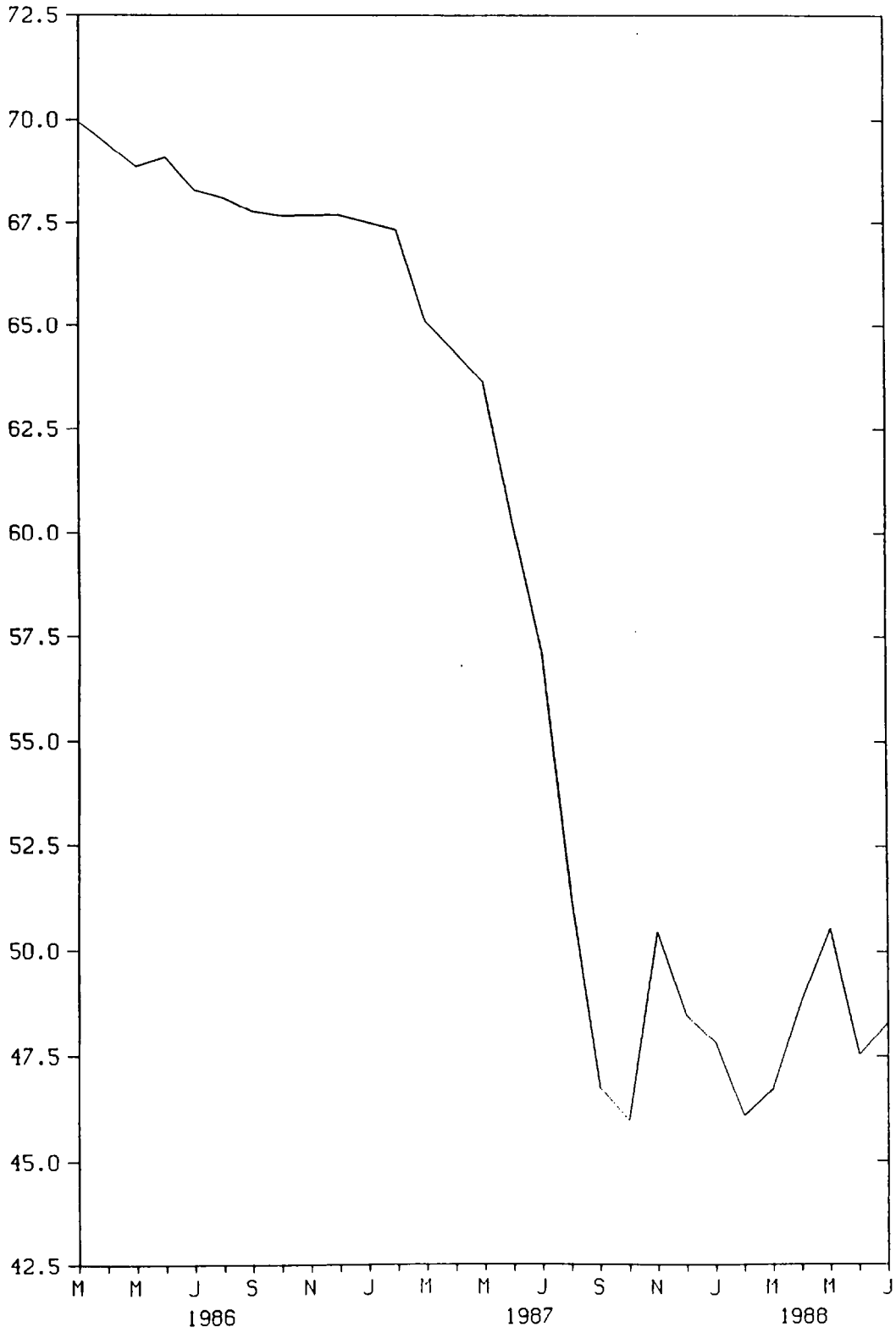
The issue has been raised whether the secondary market for bank claims may also in time broaden so as to attract investors from outside the existing pool of private creditors of developing countries. So far, there has been virtually no private nonbank portfolio demand for discounted sovereign debt. Potential institutional investors may, in some cases, face legal or policy obstacles to making such investments. In addition, the difficulty of carrying out technical credit and financial analysis for sovereign borrowers that could compare with that for corporate liabilities in industrial countries has inhibited outside interest in this market.

The total volume of claims sold in the secondary market is difficult to gauge. The lengthy chain of transactions means that estimates of gross volume considerably overstate--probably by several factors--debt sales by original holders and the extent to which such claims have been retired by the debtor. Nonetheless, the trend in the volume of gross transactions in the secondary market may give a guide to changes in underlying final sales. Estimated gross transactions climbed from less than $5 billion a year in 1985-86 to a range of $15 billion to $20 billion in 1987, and considerably more--an annualized rate of $40 billion according to some market estimates--during the first half of 1988.

"Published" discounts for bank claims reflect a mixture of actual transactions, bid/offer prices by dealers, and judgment. For small amounts of actively traded debt, it may be possible to transact at

Chart 1. Secondary Market Prices for Developing Country Loans 1/

(In percent of face value)



Source: Salomon Brothers

1/ Weighted average for 15 heavily indebted countries.

published prices. However, for large amounts of such debt, or for less actively traded debt, transactions may need to take place at a discount from published prices in order to find a buyer; conversely, moves to acquire a large amount of claims--for example to carry out a major debt/equity swap--could push prices up. Market intermediaries indicate that the prices published by Salomon Brothers and others for six actively or regularly traded countries (Argentina, Brazil, Chile, Mexico, the Philippines, and Venezuela) were representative of the price levels at which most transactions in those claims took place. However, listed prices for other countries' bank debt are less representative.

Prices in the secondary market appear to be influenced both by general factors that affect the entire market and by country-specific developments. In 1987, prices of claims on most major debtors dropped after the round of increased provisions against secondary market loan claims by U.S. and U.K. banks, and the indications that larger banks may now be willing to dispose of claims in the market. The average discount on claims on the 15 heavily indebted countries increased from just over 30 percent at the end of 1986 to almost 55 percent in October 1987. Since then, prices have recovered a little and stabilized, with discounts of a little over 50 percent on average in the first half of 1988 (Chart 1). The discounted prices on bank claims of the heavily indebted countries ranged from less than 15 percent of face value (Peru and Bolivia) to about 65 percent of face value (Colombia) in mid-1988. For the three largest debtors, prices have recently diverged, with Mexican and Brazilian claims trading at about 50 percent of face value and claims on Argentina trading at about 25 percent.

As discussed in the information note referred to above, secondary market prices and the implicit yields on traded bank claims do not generally reflect a forward-looking assessment of debtors' creditworthiness; short-term supply and demand conditions, driven by portfolio requirements and equity swap opportunities, appear to be the major market determinants. Changes in the volume transacted under official debt conversion schemes, such as the temporary suspension of the Mexican scheme, have had an immediate negative impact on prices, while Bolivia's direct buy-back scheme had an immediate positive effect on prices. A recent study by Salomon Brothers of the factors determining prices confirmed that there was a major break in the market in the second quarter of 1987, following the sharp increase in banks' provisioning levels. The study indicated that, in addition to technical factors (notably debt conversion schemes), some economic factors such as the payment or non-payment of interest, the level of debt in relation to exports, and whether or not a debtor has rescheduled, had a significant effect on prices.

For potential investors in bank claims of developing countries, and for debtor countries themselves when evaluating debt buy-backs and exchanges, secondary market prices may give an indication of yields that can be compared with alternative uses of funds. It is generally assumed that, since sovereign loans are usually rescheduled when the borrower is

unwilling or unable to make amortization payments, perpetual yields may be a better measure of perceived credit quality than yields to contractual maturity. Perpetual yields were about 20 percent for Brazil and Mexico and 35 percent for Argentina in the middle of 1988.

If the secondary market were well-developed, the extent to which the yield on a sovereign loan exceeded the yield on an equivalent risk-free security would reflect the market's perception of the credit risk associated with the sovereign loan. A recent study by Federal Reserve staff compares the yields on individual sovereign loans with yields on hypothetical risk-free securities with identical terms. 1/ The authors suggest that such calculations of "credit risk spread" could assist non-bank investors in comparing the expected returns on loan claims purchased in the secondary market to expected returns on competing assets. The spreads based on perpetual yields indicate that, until the second quarter of 1987, these were lower for most debtor countries than spreads for CCC rated corporate bonds. Moreover, credit enhancements often carried on noninvestment grade corporate bonds are not accounted for in the credit risk spread calculation; the estimates of these spreads for the CCC corporate bonds may therefore be too low. Since mid-1987, yields on the loan claims on developing countries have climbed substantially, thus also increasing the "credit risk spread" calculated in this way. However, the lack of liquidity in the secondary market means that such spreads should be treated with caution; as discussed above, they do not merely represent credit risk, but also a variety of other factors, including liquidity preference.

Banks' willingness to supply claims to the secondary market is influenced by several factors, including the discount on the claim, provisioning levels, tax treatment, accounting practices, and capital adequacy considerations. The importance of these factors has varied over time and according to banks' nationality, exposure, and profitability. Before the mid-1987 round of substantial provisioning undertaken by banks in Canada, the United Kingdom, and the United States, the chief source of supply into the market was from smaller banks in Continental Europe and in the Middle East that had no continuing business interests in the debtor country and wished to reduce exposure even at a loss. More recently, U.S. banks have accelerated their disposal of loan claims on heavily indebted countries. Citicorp has announced that it reduced loans to developing countries by $2 billion in the year to June 1988, in exchange for cash or investments valued at $1.6 billion. Of the total decline, $1.6 billion resulted from repayments in dollars or loan sales at discounts ranging from 10 percent to 30 percent. The remaining $0.4 billion reduction came from debt/equity swaps, charge-offs, and other repayments of funds. The reported average discount of 18 percent was considerably smaller than

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1/ "Measuring Market Perceptions of Credit Risk on Bank Loans to Developing Countries" by Lewis S. Alexander and Samira Kawash; preliminary draft, April 18, 1988.

the 36 percent reported by First Chicago Bank on a $0.5 billion debt reduction during the first half of 1988. To some extent, the reported discounts reflect the valuation put by banks on the investments and other noncash assets obtained for loan claims.

A recent Salomon Brothers report showed that the six biggest New York banks reduced exposure by $1.7 billion in the first half of 1988, or about 5 percent of total exposure, after a $1 billion drop in the second half of 1987, while six large Californian and Chicago banks reduced exposure by $2.2 billion in January-June 1988, or 15 percent of total exposure, following a $0.7 billion drop in the second half of 1987. However, to the extent that such reductions reflect swaps of debt for other claims on the debtors, banks' overall exposure would not have been reduced.

2. Debt conversion schemes

Debt conversion schemes have been established in several debtor countries (e.g., Argentina, Brazil, Chile, Costa Rica, Mexico, the Philippines, Uruguay, Venezuela, and Yugoslavia), in many cases in the context of bank restructuring agreements. These debt conversion schemes were described in "Implementation of the Debt Strategy-Current Issues" (EBS/87/38, 3/9/87, Sup. 1) and "Capital Market Financing for Developing Countries--Recent Developments, 1987" (SM/87/207, 8/17/87). A discussion of later changes in the schemes and of the issues raised by their operations was contained in "Recent Developments in Commercial Bank Debt Restructuring" (SM/88/63, 3/15/88). A summary of the main features of these schemes is provided in Table 3. Recent developments in debt conversion schemes in Argentina, Brazil, Chile, Uruguay, and Yugoslavia are described below.

During the period 1984 to June 1988, an estimated $11 billion in bank debt was converted under officially recognized schemes (Table 4). This amount represented less than 5 percent of outstanding bank debt of those countries with active conversion schemes, although in some cases (notably Chile), a substantially larger share of bank debt has been retired. The price at which debt is converted varies under these schemes. It may, in some cases, be linked to the sectoral distribution of the resulting investment, to the type of domestic claim exchanged for the external loan claim, or to the nature of the external loan claim being exchanged.

In Chile, where the rules under which private foreign investment operates are relatively liberal, the sectoral allocation of debt/equity conversion is largely determined by the private investor. However, the Central Bank reviews each application and limits debt conversion to 10 percent of the total equity for large natural resource-based projects to try to increase the amount of additional investment. Large-scale mining and forestry projects have received much of the investment. In Costa Rica, export-promoting and import-substituting sectors have been given priority; this is the same in Venezuela (in addition, 11

Table 3. Features of Debt Conversion Schemes

	Argentina	Brazil 1/	Chile 2/	Costa Rica	Ecuador 3/	Honduras	Mexico 4/	Philippines	Uruguay	Venezuela
Eligible investors										
Nonresidents										
Any creditor	x	x	x	x	x	x	x	x	x	x
Original creditor only										
Residents	x		x	x	x	x	x	x	x	
Eligible external debt										
Public sector	x	x	x	x	x	x	x 6/	x	x	x
Private sector	x	x	x					x		x
Exchange rate for conversion										
Official exchange rate		x	x	x	x	x		x		x
Parallel exchange rates	x 7/						x 7/		x 7/	
Valuation of debt for conversion										
Face value		x 5/	x 8/		x	x 9/		x 10/		
Below face value	x 11/	x	x 8/	x		x 9/	x		x	x 12/
Eligible domestic investments										
Equity										
Parastatal enterprises		x	x			x	x	x		x
Private companies	x	x	x	x	x	x	x	x	x	x
Original obligor only	x 13/									
Debt										
Public sector		x 14/	x	x						
Private sector			x						x	
Repayment of domestic obligations		x	x		x		x			
Restrictions on eligible investments										
Restrictions on capital repatriations	x	x 15/	x	x	x	x	x	x	x	x
Restrictions on profit remittances										
Same as for all foreign investment									x	
More restrictive than the above	x	x	x	x	x	x	x	x		x
Other features										
Limit on value of conversions	x	x	x	x					x	
Auction of conversion rights	x	x	x 16/						x 17/	
Conversion fees							x	x 18/		
Additional foreign exchange required			x				x 19/			x
Tax credits										

Sources: Argentina, 1987 Refinancing Plan; Brazil, Foreign Investment Law (Law No. 4.131 and Decree No. 55.762) Central Bank of Brazil, Resolution 1416, November 17, 1987; Central Bank of Chile, Compendium of Rules on International Exchange and Decree Law 600; Central Bank of Costa Rica, A Guide for Converting Foreign Debt Securities Issued by the Central Bank of Costa Rica into Colones; Central Bank of Ecuador, Monetary Board Circular Nos. 395-86 and 408-87; Mexico, National Commission on Foreign Investment, Manual Operative para la Capitalizacion de Pasivos y Sustitucion de Deuda Publica por Inversion; Central Bank of Philippines, Revised Circular No. 1111; Venezuela, Office of the President of the Republic, Decree No. 1521.d; Central Bank of Honduras; Central Bank of Uruguay, Disposicion del 8 Diciembre 1987.

1/ In November 1987, the authorities announced a new debt-equity swap scheme. The description in this table corresponds to this scheme.
2/ Compendium of Rules on International Exchange, Chapters XIX and XVIII and Decree Law 600.
3/ Introduced in February 1987 and temporarily suspended in August 1987.
4/ Mexico has temporarily suspended receiving applications under the scheme in October 1987.
5/ The June 1988 rescheduling agreementallows for conversion of exit bonds and new money at face value.
6/ Rescheduled debt only.
7/ Free market exchange rate.
8/ Conversions of Central Bank debt under Chapter XIX are at face value, while other conversions of public sector debt are subject to a small discount; conversion terms of private sector debt are negotiable.
9/ Depends on type of investment and on discount in secondary market.
10/ Debt redeemed at face value, but conversion fees apply.
11/ Discount, if any, determined by an auction.
12/ Discount, if any, determined by newly formed commission with oversight responsibility.
13/ Private sector debt only.
14/ Exit bonds can be exchanged for Treasury securities.
15/ Since March 1987, investment through debt conversion must remain at least 12 years in Brazil before becoming eligible for repatriation.
16/ Chapter XVIII investments only.
17/ Conversion rights will be auctioned if the offers tendered for debt conversion exceed the established annual limit.
18/ Fees depend on the share of investment funded with foreign exchange.
19/ Investments in the nonpriority sectors only.

Table 4. Debt Conversions, 1984-First Half 1988 1/

(In millions of U.S. dollars)

	1984	1985	1986	1987	First Half 1988
Argentina	31 2/	469 2/	--	--	350
Brazil	731	537	176	290	925
Chile	--	323	974	1,983	900
Costa Rica	--	--	7	96	15
Ecuador	--	--	--	125	--
Honduras	--	--	--	6	--
Mexico	--	--	413	1,741	325 3/
Philippines	--	--	15	266	180 4/
Uruguay	--	--	--	--	64
Venezuela	--	--	--	45	29 5/
Total	762	1,329	1,585	4,552	2,788

Sources: Central Bank of Argentina; Central Bank of Brazil; Central Bank of Chile; Mexico, Ministry of Finance; Central Bank of Philippines; and Fund staff estimates.

1/ Face value of debt converted under officially recognized schemes.
2/ The annual breakdown of conversions is estimated.
3/ Estimate.
4/ January-May 1988.
5/ January-March 1988.

designated priority sectors have been specified). In the Philippines, priority sectors (to which a more favorable conversion rate is applied) include export-oriented production, agriculture, health, education, middle-income housing, and the assets held by the Asset Privatization Trust (APT). In Mexico, the emphasis was on encouraging industrial investment, but a considerable amount was also invested in tourism. The new Uruguay scheme does not give any particular sector priority, but the Government will carry out social project evaluation. In Argentina, investments are required to be directed toward increasing the productive capacity of the economy; and in Brazil, investment in the Northeast regions is particularly favored.

The discount captured by the government has varied from as little as 3 percent of the face value of converted claims to as much as 30 percent to 40 percent. In Brazil, the discount in auctions this year has averaged 20 percent. However, new loans under the 1988 financing package may be converted at face value up to a certain limit, as described below. In Chile, the conversion of external for domestic debt has taken place through an auction system with the Government's share of the discount varying from 15 to 30 percent of face value, in accordance with changes in the secondary market price. Debt conversions for mortgages under a temporary new scheme are taking place at face value, with the benefit thus shared directly between the domestic mortgage holder who purchases the debt at a discount and the financial intermediary. In the case of debt/equity conversions, the exchange price is determined on a case-by-case basis. In Costa Rica, the Central Bank issues bonds in exchange for debt that may be used to acquire cash for approved investments. The Central Bank has shared substantially in the discount available in secondary markets. In Uruguay, the Government share is required to be at least 12 percent of the face value of the debt for debt-equity swaps and is determined as two-fifths of the discount on the secondary market (which must be at least 30 percent) for the debt/debt swaps. In Mexico, the Government share is negotiated on a case-by-case basis.

In accordance with the 1987 new bank financing agreement, the Central Bank of Argentina held the first auction under its new debt conversion scheme in January 1988. The auction allocated debt conversion rights equivalent to $84 million at an average discount of 35 percent. Since then, $242 million has been auctioned at an average discount of 56 percent. In addition, $27 million has been auctioned under a separate scheme applying to private sector debt at an average discount of 11 percent. These conversions need to be accompanied by new money. An overall limit of $1.9 billion has been set on the dollar equivalent of the discounted value of debt converted over the next five years. If the average discount of 50 percent remained, as much as 10 percent of Argentina's bank debt could be converted.

Brazil has recently revived its debt conversion scheme, with auctions of $0.6 billion of debt in January-June 1988; a further $0.3 billion was also converted. The June 1988 rescheduling agreement

allows for conversion into equity of debt restructured under the MYRA, the new money facilities, and the exit bonds. In addition, loans under the parallel new money facility may be invested in equity in Brazil at face value beginning one year after the date on which a critical mass of commitments has been reached; these investments are subject to a limit of $50 million a month for a three year period, with an overall limit of $1.8 billion.

In Chile, debt conversions under two main official schemes have extinguished $4 billion of bank debt over the past three years (about one-quarter of Chile's long-term bank debt). Recently, operations under Chapter 18 (which allow conversion into debt instruments with no remittance rights and are intended to stimulate the return of flight capital) expanded rapidly and were thought by the authorities to have contributed to pressures in the parallel exchange market. The authorities have now limited these operations, other than transactions under a special temporary scheme for small mortgage holders introduced in March 1988, which allows them to participate in debt conversions and to use their profits to reduce outstanding mortgages. Mortgage-related operations have led to some $20 million of conversions so far this year, with another $90 million being processed and a possible total stock of foreign debt to be converted under this mechanism of about $300 million.

In December 1987, Uruguay established a debt/equity swap scheme to begin in April 1988. Under this scheme, an overall limit of US$55 million could be converted during 1988 and 1989. This limit was aimed to contain the impact of the scheme on the management of monetary policy. An auction procedure is to be followed to determine the projects to be accepted under the scheme, and a minimum discount, to be appropriated to the Central Bank, of 12 percentage points of the face value of the debt has been set. At the time that the scheme went into operation, the secondary market price for Uruguay's debt was trading at a discount of about 40 percent. A separate scheme, established in August 1987, allows conversion of external debt to domestic debt by selected domestic private debtors, who can cancel their liabilities to the Central Bank with public external debt purchased in the secondary market. The purpose of the scheme is to allow the Central Bank to recover at least part of its nonperforming private sector loan portfolio and to share in the discount in the secondary market, while providing domestic debt relief. The authorities expect that such external debt purchases would be financed by capital repatriation and not by domestic credit that might endanger the monetary program. Transactions under this scheme by end-June 1988 amounted to $39 million.

3. Buy-backs and debt exchanges

Other techniques that allow debtor countries to benefit from discounts on their debt in secondary markets are cash buy-backs or the exchange of existing debt for new debt with different terms. However, direct buy-backs and many debt exchanges are not technically possible without a waiver of the prepayment provision in loan agreements. Thus

far, creditor banks have been reluctant to agree to buy-backs or debt exchanges in which existing foreign exchange resources of the debtor government would be used; banks have argued that such resources should be used for servicing existing debt. They have also been concerned about moral hazard implications and about stockholder reactions to any increases in exposure, for example through new lending, that may be seen as providing debtors with cash resources for a buy-back that involves a loss for participating banks. For middle-income debtors in particular, banks have strictly limited the amounts of debt that may be exchanged or bought back. Nevertheless, banks have approved the use of this technique by governments in three recent cases (Bolivia, Chile, and Mexico). More limited schemes were adopted in two other cases (Mexico and Peru).

The treatment of debt buy-back and exchange operations and of the necessary waivers of some clauses in bank documents has varied. Under the terms of Mexico's 1985 restructuring agreement, which introduced amendments to allow debt/equity operations, banks holding a simple majority of total exposure (over 50 percent) could waive pari passu clauses, related to the priority rank for payments, and negative pledge clauses; 50 banks, compared to a total of about 500 creditor banks that originally signed these documents, account for such a majority of exposure. Waiver of the payment sharing provisions required approval of all banks. Before the debt exchange announced in late 1987 could take place, a waiver of these clauses was obtained.

In the Chile case, the 1988 rescheduling proposals would give approval in advance to both debt exchanges and buy-backs within predefined limits, subject to approval by a reduced majority (two-thirds), rather than by all of the banks as in the original loan agreements. The amendments allow the qualified majority to waive the provisions governing payments sharing, pari passu, and negative pledge clauses. For amounts larger than those specified in the amendments, approval of all banks would be required. The new proposals also include a modification to allow the payment or prepayment of external debts in local currency on a voluntary, negotiated basis. Such payments would not need to be offered on a pro rata basis and would not trigger sharing or mandatory prepayment clauses.

A debt-for-products buy-back scheme was adopted in Peru as part of a debt rescheduling with Socialist bloc countries in 1983, and was extended to commercial creditors in 1987. Under the scheme, a creditor signs a contract agreeing to receive shipments of specified Peruvian products up to specified total amounts and pays cash for a portion (typically two-thirds) of the value of the goods. The remainder is used to retire existing debt at face value. Two banks agreed to the scheme in late 1987, and arrangements with several other banks are being negotiated.

A Bolivian buy-back scheme went into operation in 1988. 1/ Almost half of outstanding principal has now been retired or converted into collateralized bonds under this scheme. In November 1987, a voluntary contribution account to administer funds donated for the buy-back was set up in the Fund, commercial banks completed signing an authorizing amendment to the 1981 financing agreement to allow a buy-back, and the Bolivian authorities issued a decree establishing the domestic legal framework for the buy-back. In early January 1988, a letter from Bolivia was distributed to all creditor banks in which Bolivia offered to buy back its debt at 11 cents to the dollar. This was in line with the secondary market bid price at that time; however, the price had moved up in November 1987 from 8 cents, in anticipation of the buy-back. Bolivia also offered an exchange of debt for fully collateralized bonds at 11 cents on the dollar. The four-month period for the buy-back initially ran from November 12, 1987 to March 12, 1988; during this period, the sharing provisions under the bank legal agreements were suspended. However, the offer of collateralized bonds has been extended beyond March 12, 1988, and apparently the revival of sharing provisions does not apply to the exchange of debt instruments.

Under the buy-back itself, a total of $253 million of principal face value was repurchased at a cost of $27.8 million. A further $15.8 million was donated to Bolivia, including $0.6 million as a result of a debt for nature swap under the auspices of World Conservation International, and $64.4 million were converted at a discount into bonds. A total of 55 banks participated. However, because not all of them tendered all of their claims on Bolivia, the universe of bank creditors shrunk somewhat less, from an estimated 130 to some 80 to 85 banks. The buy-back appeared to have a significant impact on the secondary market price for Bolivian debt. The average price in 1986 had been 6 cents, and the price rose when discussions of a buy-back began late in 1986. After falling back in mid-1987, it rose further later in the year to an offer price of as high as 13 cents once the buy-back period was in place and the trust fund in the Fund had been established.

After Mexico's public sector debt to commercial banks had been restructured, banks agreed in August 1987 that private sector debt covered by the Foreign Exchange Risk Coverage Trust Fund (FICORCA) would be rescheduled on comparable terms. During 1987, Mexican private borrowers paid $2.7 billion for the prepayment of debt to commercial banks with a face value of $3 1/2 billion to 4 billion--a discount of between about 25 percent to 33 percent of face value. 2/ Debt with a face value of a further $1.5 billion was believed to be prepaid in early 1988. As

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1/ Described in the "Information Note on the Secondary Market, Mexican Debt Exchange and Bolivian Buy-Back" (EBS/88/98, 5/23/88).

2/ For further details, see Mexico--Staff Report for the 1987 Article IV Consultation and Second Review Under Stand-By Arrangement (EBS/88/23, 2/4/88).

a result, the total amount of private sector debt to be rescheduled may have been reduced from $9 billion to about $4 billion.

The debt exchange of Mexican public sector debt under which certain existing medium-term bank debt was voluntarily exchanged for newly issued collateralized 20-year Mexican bonds was announced in late December 1987. 1/ Mexico offered a 20-year marketable international bond to its creditors at a spread over LIBOR of 1 5/8 percent or double the spread (13/16 percent) on rescheduled Mexican bank debt. The newly issued bonds will be amortized in a single payment, i.e., a bullet, but will have call provisions which permit earlier amortization at the discretion of the Mexican authorities. The principal value of the bonds was collateralized with a nonmarketable zero-coupon U.S. Treasury bond maturing in 20 years.

The Mexican auction was completed on February 26, 1988 with 139 banks making bids covering $6.7 billion in old debt. Mexico accepted bids from 95 banks for $3.7 billion in claims. These claims will be exchanged for $2.6 billion in new bonds with a resulting drop in Mexico's debt of $1.1 billion, considerably less than some early estimates of the possible impact of the exchange. Among successful tenders, Japanese banks offered the largest amount, followed by U.S. and Canadian banks. Only two or three U.S. money center banks reportedly participated out of about 30 U.S. banks that tendered bids.

The average exchange ratio of 1.43 was equivalent to a price of about 70 cents per dollar. Mexico accepted bank tenders up to a price of 75 cents on the dollar. About three quarters of the bids were concentrated in the range of 60 cents to 75 cents on the dollar and within this band, most exchange offers were between 65 cents and 71 cents on the dollar. These bid prices were in line with the market's financial analysis. According to this analysis, Mexico's ability to remain current on its interest payments would not be materially affected by the exchange; although the bond was enhanced by the collateralization of principal, much of its present value was in the stream of interest payments.

Innovative proposals that build on the Mexican experience are contained in the 1988 agreement in principle between Chile and its commercial bank creditors: the existing rescheduling agreements will be amended to allow for direct debt exchanges and buy-backs by the Government, the issuance in the future of collateralized debt, and the use of collateral to undertake hedging operations. In the view of the authorities, the secondary market price for their debt (currently about 60 percent of face value) represents an undervaluation, as they intend to service debt in full; thus, debt buy-backs represent a good investment.

1/ For a detailed discussion, see the Information Note referred to above.

The new proposals would allow Chile to use up to $500 million for either cash buy-backs or the exchange of collateralized new debt for old. No more than $2 billion of existing debt may be extinguished or converted in this way. As in Mexico, the level of international reserves was higher than foreseen at the start of the Fund-supported program and the agreement on the commercial bank financing package. The financing of the new transactions is to come from excess reserves, due to higher than expected copper prices in 1988, that have been accumulated in a special Copper Fund set up under a World Bank Structural Adjustment Loan.

In addition to the provisions allowing for collateralized debt conversions and exchanges, the proposed amendments would allow for the limited collateralization of future bank financing, thus incorporating the idea of the subordination of old debt for new. Chile would be allowed to borrow--on a collateralized basis--up to $100 million in 1988, $200 million in 1989, and $200 million a year thereafter with an overall limit of $500 million at any time after 1989. Up to $200 million of such future new money may be secured by exportable assets and related receivables.

4. Risk management

Shifts in interest rates and exchange rate have had an important impact on countries' debt servicing obligations. Over the past few years, there has been increased diversification of currency composition of bank debt of developing countries and a general shift to longer interest payment periods. However, in most rescheduling agreements, the option to switch from U.S. dollars into other currencies is at the discretion of the lender and not the borrower.

The option of paying interest on a six monthly, rather than three monthly, basis was included in most recent rescheduling agreements and is at the discretion of the borrower. In one case, Chile, the debtor country has been able to secure interest rates for a year ahead by switching to a one year interest payment period. Six-month interest rates have generally been higher than those for three months in recent years. However, the country that opts for a longer payment period has the advantage of securing its payments obligations for a period ahead, and may deploy reserves elsewhere in the meantime.

As countries have rescheduled their debt, this has often led to a bunching of interest payments around a particular date. In the case of Chile, the retiming of interest payments to a one year basis would have led to an extreme concentration of a full year's interest obligations at one time in the year; this bunching was partially avoided by dispersing payments dates to some extent as part of the 1987 rescheduling agreement. In other cases, such as Argentina, there is some bunching in two months of the year; however, in this case the number of different facilities and rescheduling agreements with banks means that while interest payments in one month may be twice as large as those in sur-

rounding months, the payments due in the two heavy months still represent only about 30 percent of annual interest payments to banks.

Other market techniques to hedge exposure to interest rates or currency are being examined by some heavily indebted developing countries. There are two broad types of techniques. The first group--e.g., swaps and interest rate collars that fix a lower as well as an upper bound on interest rates--may be prohibitively expensive for countries whose creditworthiness is impaired, because transactions normally leave counterparties open to full credit risks on each other. The swap market is particularly deep, but collateralization is necessary because of the two-way credit risk involved. It appears possible however that creditors may assist countries in developing such risk management techniques by providing resources for collateralization or (as in Chile) by allowing the use of debtors' own resources for this purpose.

The second group of hedging techniques comprises instruments that may be more easily employed by a heavily indebted country because the transactions operate in ways that limit or offset credit risk (for example, through the use of margin requirements), or because the transactions involve no credit risk to the lender as they allow the borrower to receive funds but not to be called upon to deliver funds (e.g., interest rate caps). The key instruments for hedging interest rates are caps and futures. In the recent period, the market in interest rate caps has expanded, becoming more liquid and competitive, particularly for the caps covering periods of up to 5 years ahead. About 10 major U.S. banks now provide LIBOR caps. Turnover in the market is estimated at $30 billion to $40 billion annually; this compares to a total bank debt of the 15 heavily indebted countries of more than $250 billion. Thus, while some sovereign debt could be capped in this market, the use of caps by major debtors would remain circumscribed in current conditions. If transactions were spaced out carefully over time, with daily amounts limited to perhaps $1 billion, the market could, however, absorb considerable amounts over a period of one to two years.

A further issue is that interest caps have an initial cost which may be large related to some debtors' ability to raise funds. The cost of a 2-year cap on interest rates at 10 percent was recently quoted at 0.6 percent of the capped amount, when LIBOR was 8 5/8 percent; the cost rose to 1.35 percent for a 3-year cap; and 3.3 percent for a 5-year cap. A 9 percent cap purchased on the same date would have cost 1.15 percent for 2 years and 4.55 percent for five years.

In addition to these widely used market-based caps, in domestic markets banks have frequently offered tailor-made hedging instruments for their corporate customers. It is possible to envision similar instruments being devised for developing country customers.

Performance risk in the case of futures is covered by margin requirements (additional margin calls may also be made before contracts mature). It appears that margin requirements may be fulfilled by sup-

plying securities that are effectively pledged, while the borrower retains interest income on the securities; alternatively they could be financed by credit lines which could in turn be collateralized to reduce credit risk. One issue for debtor countries is that margin calls do tie up liquidity while the hedge is in effect, and thus may be impracticable for countries with low foreign exchange reserves.

The Euro-dollar interest rate futures market is sufficiently deep for between 6 months and 12 months ahead to allow hedging of amounts that are substantial even in the context of sovereign debt, provided these are spread over a period of days or weeks when initially contracted; it remains reasonably deep for two years ahead. The market is particularly deep for three-month contracts. Debtors with longer interest payment periods than three months may engage in "imperfect" hedging through carrying out transactions for a multiple number of three month contracts that mature on the date to be covered. If interest rates move by one percent on an annual basis, for example, then the profit or loss on a three-month futures contract would be approximately one quarter of this and therefore a quarter of what would be needed to hedge a full year's interest payment.

Experimental hedging operations carried out by the Chilean Central Bank in late 1987 and early 1988 locked in interest rates on about $1.5 billion of variable rate debt (equivalent to more than 10 percent of Chile's floating interest rate debt) through the purchase of 6,000 3-month contracts of $1 million each for a total value of $6 billion. This technique provided an "imperfect" hedge for a 12-month LIBOR based debt; the market for 6-month and 12-month futures contracts was of insufficient depth to allow operations on the desired scale without increasing the price of the contracts.

The proposed amendments to the Chile rescheduling would allow it to undertake collateralized operations in order to hedge against risk. The agreement in principle would allow Chile to pledge collateral of up to $150 million to support such operations. No final decision has yet been reached on the scale and type of the authorities' eventual hedging operations. Preliminary indications are that the operations will be mainly in the futures market because of the depth of the market and the relatively low cost of futures contracts; with a time horizon of no more than one year; and margin requirements to be funded from credit lines, probably secured.

For debtor countries, a number of issues are being raised by the different risk management techniques. Firstly, the absolute cost of cover must be assessed against the protection it affords over and above the existing protection inherent in 6-month or 12-month interest payment periods; the second issue is how much liquidity may be tied up in margin requirements, or need to be set aside for possible margin increases; and thirdly, the market beyond the near term may not at present be sufficiently deep to make hedging of large amounts of sovereign debt feasible.

IV. Regulatory, Accounting, and Tax Background

There are some important national differences in the regulatory, accounting, and tax treatment of particular menu items. However, banks' attitudes towards particular menu items are also affected by their relative strength, by their exposure to particular countries and the relative financial and trading importance of those countries, and by their longer term business strategy. Thus, some financing options are available for major debtors--whose behavior could have a significant impact on the balance sheet of a large number of major banks--but not for smaller debtor countries, while in some cases smaller banks with less exposure have more in common with banks of a different nationality than with major, highly exposed banks in their own countries.

More broadly, the impact of regulatory and accounting considerations on banks' willingness to provide finance for developing countries has changed as perceptions of fundamental creditworthiness have shifted and the vulnerability of many banks to developing country sovereign risk has lessened. In the years immediately after the onset of debt servicing difficulties in 1982, banks were reluctant to consider financing techniques that involved recognizing a loss. This was particularly true in countries where disclosure obligations are extensive (Canada, Japan, the United Kingdom, and the United States).

However, as banks have improved their balance sheets, the time horizon for resolving debt servicing difficulties has lengthened, and risk perceptions of developing country debt have worsened, some banks' attitudes have also changed. This was illustrated clearly by the decision in 1987 of banks in the United States and the United Kingdom to raise their loan-loss reserves substantially above the levels required by the supervisory authorities, a decision that also strengthened their share prices. In Japan, banks' emphasis has increasingly been on obtaining tax concessions rather than on preserving the book value of claims. This section reviews recent regulatory developments in capital adequacy and provisioning in the context of bank's attitudes to financing for heavily indebted countries, and discusses how regulatory, tax and accounting considerations affect banks' response to particular financing instruments.

1. Capital adequacy

Since the emergence of widespread debt servicing difficulties among developing countries and weaknesses in certain sectors of industrial economies, bank supervisors in industrial countries have been engaged in a coordinated effort to strengthen banks' balance sheets, reversing the downward trend in capital relative to assets that had prevailed during the 1970s and early 1980s. One of the most significant recent development in the regulatory environment has been the move toward convergence of capital adequacy standards in major industrial countries. In December 1987, the Basle Committee on Banking Regulation and Supervisory Practices (the "Cooke Committee") issued a proposal that would set a

common framework for measuring capital adequacy and minimum standards. In July 1988, this proposal with some changes was endorsed by the central bank governors of the G-10 countries.

This agreement has two principle objectives: to strengthen the soundness of the international banking system and to diminish competitive inequality among international banks arising from differences in bank supervisory practices and standards. Under this framework capital is divided into two types, "core" and "supplementary," 1/ and different categories of asset and off-balance sheet exposures are assigned weights according to their relative riskiness, with full or 100 percent weight assigned to claims on the private sector, commercial companies owned by the public sector, and other assets. (The risk weights assigned to claims on borrowers in certain developing countries are discussed in detail below.) The Basle Committee set a target for the minimum ratio of capital to risk weighted assets. This target, which is to be reached by end-1992, is 8 percent, of which the core capital element should be at least half. The new standard and the capital definitions would be phased in during the transitional period which began in July 1988.

The capital adequacy standard will have broad implications for banks, particularly in countries where it differs in important respects from present standards, or is more stringent. In particular, the requirement that core capital be 4 percent of risk-weighted assets exceeds present standards in a number of countries. The new rules have therefore been generally perceived by banks as a reason to restrain balance sheet growth, especially of high risk-weighted assets that are not sufficiently profitable, and to increase the importance of maximizing profits. Some banks--notably in France, Italy, Japan, and the United States--may have to raise equity and debt capital in the near future, in addition to generating it internally, in order to meet the requirements. For banks in countries with public disclosure of banks' balance sheets, the pressure to minimize exposure to problem borrowers, including highly indebted countries, may thus intensify, as this exposure has an adverse impact on market perceptions and on banks' ability to raise new capital in equity and debt markets.

The treatment of country transfer risk under the new framework has attracted considerable attention, especially from some developing countries. The framework makes a distinction for purposes of assigning risk weights to central governments and central banks between such claims on full members of the OECD or countries which have concluded special

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1/ The first tier (core capital) consists of ordinary paid up share capital and disclosed reserves. The second tier may contain a wider range of items--including undisclosed reserves, a part of unrealized securities gains, general loan-loss reserves, and subordinated debt.

lending arrangements with the Fund in the context of the Fund's GAB 1/ and claims on other countries. Claims on central governments and central banks within this specially defined group were assigned a zero risk weight, while such claims on other countries received a 100 percent risk weight. No transfer risk distinction is made on short-term interbank claims of bank incorporated within, or outside of, this special group; all interbank claims with a residual maturity of one year or less were assigned a 20 percent risk weight. For interbank claims with a maturity of more than a year, claims on banks incorporated within this special group retain a 20 percent risk weight, while claims on banks incorporated outside this group were assigned a 100 percent weight.

This distinction means that sovereign lending to, for example, Turkey or Greece would be less expensive in terms of capital cover than sovereign lending to Korea or China. Sovereign lending to developing countries would in general carry a full risk weighting, making it comparable, in terms of capital cover, to lending to private sector entities in industrial countries, i.e., more expensive than sovereign lending to the special group.

In its report, the Committee cited three reasons provided by banks and banking associations in comments on its earlier proposal for choosing the current approach over the earlier proposal of distinguishing transfer risk based on a simple domestic/foreign split. The first was that a domestic/foreign split would take insufficient account of the "broad distinctions in the credit standing of industrialized and non-industrialized countries." Secondly, a domestic/foreign split would not reflect the global integration of financial markets and "would discourage international banks from holding securities issued by central governments of major foreign countries as liquid cover against their Euro-currency liabilities." The desire to preserve efficiency and liquidity of the global interbank market was the reason for the absence of a transfer risk distinction for short-term interbank claims. Thirdly, and most importantly, given the overlaps between membership of the Basle Committee and the European Community, which is developing its own supervisory framework and standards, there was a strong insistence on a consistent approach. The EC is committed to the principle that all claims on banks, central governments, and the official sector within the EC should be treated in the same way.

The Basle Committee agreed that specific, or earmarked, provisions should not be included in capital. However in practice it is difficult to make clear distinctions between general provisions and specific, or earmarked, provisions, partly due to the diversity of accounting and fiscal regimes. In some countries, notably France and the United States, loan-loss reserves against developing country exposure are considered part of general reserves and are included in capital.

1/ This group includes Saudi Arabia and excludes Yugoslavia. The only developing countries included in the group are Greece, Portugal, Saudi Arabia, and Turkey.

During the transitional period, the Committee intends to clarify those elements which should be regarded as part of capital and those which should not qualify. In the event that agreement is not reached, the amount of general loan-loss reserves that qualify as capital would be phased down by 1992 to no more than 1.25 percentage points or exceptionally and temporarily up to 2.0 percentage points of risk assets. This treatment of general loan-loss reserves would increase the capital requirements of some banks in those countries where a substantial portion of capital is in this form (e.g., France and the United States).

Loans that carry a guarantee of major governments or multilateral financial institutions such as the World Bank, would be assigned the risk weight of that government or multilateral institution. Thus, lending under guarantee would continue to be attractive to banks.

Banks have indicated that the above considerations about the new capital requirements may further increase their reluctance to take on new sovereign risk vis-a-vis countries with debt servicing difficulties. However, despite the importance of the new capital standard, the provisioning policies and practices discussed in the following section would still usually have a greater impact on the relative attractions for banks of lending to different countries.

2. Provisioning developments

A key influence on banks' attitudes to financing for developing countries that have restructured--in particular, banks' preferences for certain financing modalities--has been the level of provisioning against sovereign risk claims and the tax and accounting treatment of that provisioning. For banks in some countries, all provisions against sovereign exposure are specific--they apply against particular loans on particular countries. In others, basket provisioning is used whereby loan-loss reserves must be held equivalent to a proportion of all claims against a group of countries. In the U.S., there are both general reserves earmarked against sovereign risk and specific provisions against claims on individual countries. These different types of provisioning have different implications for banks' balance sheets and tax treatment.

A major development over the past year has been the substantial increase in provisioning, particularly in countries such as the United Kingdom and the United States where banks' levels of loan-loss reserves had previously been low. This was described in detail in "Recent Developments in Commercial Bank Debt Restructuring" (SM/88/63, 3/15/88). The increase in provisioning above mandated levels was generally initiated by banks themselves, but supervisory authorities in a number of countries have also recently raised required provisioning levels. In Canada, the band of mandatory provisions on a basket of countries that have experienced debt servicing difficulties has been increased in 1988 from a range of 30 percent to 40 percent of the face

value of claims to a range of 35 percent to 45 percent, and four countries have been added to the basket, bringing the total to 38. It is expected that tax deductibility will be granted substantially covering relevant provisions.

In Japan, the maximum level of provisioning against claims on 36 countries that have experienced debt servicing difficulties was increased on March 31, 1988 from 5 percent to 10 percent. The general limit on the tax deductibility of provisions has, however, remained at 1 percent of the face value of rescheduled claims and of exposure increases since the base date. Swiss banks will be required to have provisions equivalent to at least 35 percent of claims on some 60 to 70 developing countries by end-1988, compared to 30 percent at end-1987. The mandatory provisioning target is expected to be raised further to 40 percent by end-1989. Most major Swiss banks had, however, already exceeded the mandatory provisioning level at end-1987.

Tax deductibility of loan-loss provisions against claims on developing countries became more widespread during 1987, as tax arrangements in countries with more limited deductibility were modified and banks in other countries moved to take greater advantage of existing possibilities for tax deductions. In the United Kingdom, the establishment of a more quantified framework for banks' provisioning decisions appears to have facilitated the agreement with the tax authorities. In Japan, while explicit tax concessions were not granted, banks were allowed to sell loans at a discount to an offshore company in the Cayman Islands set up jointly by major banks, and to claim tax deductions on the loss incurred by this transaction. Initially, new money loans to Mexico with a face value of $820 million were transferred in March 1987 at a 42 percent discount; a further $142 million in new money loans to Argentina was sold in September 1987 at a 60 percent discount.

Generally, the United States tax authorities will not allow banks a tax deduction for reserves against developing country exposure until a loss is realized, unless a specific provision is mandated by the supervisory authorities. However, banks intending to dispose of their loans at a loss, for example through sales in the secondary market, may show a deferred tax credit in their profit and loss accounts when they add to loan-loss reserves. On the other hand, it appears that the deferred tax credits recorded by some banks when loan-loss reserves were increased sharply in 1987 may be disallowed unless a loss is realized soon.

In contrast to these moves toward tax deductibility, it has been suggested that banks in some countries, such as Switzerland and Germany, where reserves are tax deductible may begin to encounter some resistance to extremely high provisioning levels (these approach 70 percent to 80 percent in some cases). Nevertheless, where provisions are challenged by tax authorities, a decision may be postponed until the next tax inspection, two to four years later, or banks may switch the provision from claims against one country to those of another.

3. Considerations regarding particular debt instruments

Observers have noted that regulations and accounting treatment in some countries have inhibited banks' use of certain menu options. However, it has become apparent over the past 12 months that authorities in a number of countries are willing to show flexibility in order to encourage the pursuit of the debt strategy through the development of the new financing instruments in the menu. At the same time, bank's reluctance to engage in general purpose medium-term lending has increased.

Some banks have favored cofinancing loans with the World Bank as adding to the security of loans. However, the B-loans with interest-sharing provisions, which are most attractive to banks, are not generally available for countries whose debt servicing difficulties have limited their market access. Other cofinancing loans, and more loosely linked parallel financing, have been an important menu item in recent packages (Argentina and Brazil). As described above, guarantees, including from the World Bank, will be particularly attractive to banks with high exposure in the context of the new capital adequacy standards.

In a number of cases, trade credits are viewed more favorably by regulators than new medium-term money. In Japan, bill finance for trade purposes is excluded from provisioning. In the United Kingdom, a high proportion of trade-related debt that may be serviced more regularly could warrant lower provisioning levels within the bands indicated by the provisioning matrix. In the United States, mandated specific provisions distinguish between different types of debt, depending on the payments record and outlook, and banks have also generally excluded trade-related debt from their exposure when determining the level of general loan-loss reserves to be established in relation to developing country risk.

There has been an increasing move toward the use of securities in debt restructurings. The take-up of the original "exit bonds" or alternative participation instruments in the Argentina package was very poor, as most banks found the interest rate unattractive and preferred either to dispose of their claims entirely through outright sales or swaps or to hold onto their claims and hope to collect interest financed by the contribution of other banks that participated in new money packages. New money bonds have also been included in recent financing packages. Banks holding securities often need to take a decision whether these will be held to maturity, and therefore should be accounted for at book value, or whether they are investment instruments, in which case it would be appropriate, from an accounting perspective, that they be "marked to market." When securities are listed, there is a greater presumption that they may be traded and thus marked to market.

Collateralized securities may offer advantages similar to those of guaranteed claims if regulators recognize the collateralized portion as a claim on the guarantor. However, the United Kingdom supervisory

authorities did not take this view in the case of the Mexican debt exchange. In Switzerland, the treatment of the bond is under discussion. In the United States, banks may show the collateralized Mexican bond as U.S. risk, but it must be footnoted in banks' accounts. These issues will be raised by the possible use by Chile of collateralized lines of credit for margin calls in hedging instruments.

With the move toward greater provisioning, new money in the form of traditional medium-term credits has become particularly unattractive when it requires new provisioning, out of profits, against the new claims. However, since loan-loss provisions are tax deductible in most countries, with the notable exception of Japan and the U.S. (except in the limited cases where country-specific provisions are required), the cost to banks of setting aside these reserves is partially offset.

Banks' degree of exposure is a particularly important influence on their attitude to new money. Within the United States, for example, a smaller bank which has reserved heavily against its developing country exposure, and written off some of its claims, may be willing to refuse to join a new money package and take the risk that its actions will provoke interest arrears. On the other hand, the risk of interest arrears, a subsequent shift of loans to nonaccrual status and, possibly, a mandated writedown may be judged quite differently by a major bank with high exposure and relatively weak capital cover.

Japanese banks increasingly have traded their willingness to participate in traditional concerted new lending for the acceptance by the Ministry of Finance that a tax deductible loss is involved in their holdings of similar claims. Thus, Japanese participation in the latest new money packages for Mexico and Argentina took place after agreement with the Ministry of Finance on the Cayman Islands holding company, described above. The same pattern may be followed for the current Brazilian new money package.

The recent move by a number of debtors towards obtaining de facto financing through the accumulation of interest arrears has regulatory implications. In countries where rescheduling by itself is sufficient to cause supervisors to mandate or require provisions (Canada, Japan, France, and Switzerland) and, in particular, in countries where provisioning applies to a basket of countries rather than depending on the particular circumstances of each country, temporary interest arrears do not have an automatic repercussion for banks' balance sheets. In other countries, notably the United States and the United Kingdom, the existence of interest arrears beyond a certain period is a major factor in determining provisioning levels.

For a highly exposed bank in the U.S. with a significant proportion of profits from developing country lending and high exposure relative to capital, the use of interest arrears as a financing technique could be particularly unwelcome. First, interest arrears that persist for more than 90 days mean that interest may no longer be accrued, with an imme-

diate impact on profits. A further step would be the designation of these claims as valued-impaired, requiring specific provisions (allocated transfer risks reserves). These reserves are then taken out of capital. Once a loan is placed on a nonperforming basis, it may be difficult to change its status. Draft guidelines on the accounting treatment of interest propose that accrual of interest following a period of nonpayment would be re-established only after a seasoning period of good performance. But accountants have also argued that if banks have established sufficient general reserves to take care of the diminution of principal value caused by the risk of nonpayment, actual cash receipts of interest from such claims may be included in income. Banks may nevertheless anticipate that in some cases a prolonged period of interest arrears may lead to mandated additional provisions and a requirement that even cash receipts of interest be used to build up reserves, rather than recorded as income.

For an exposed bank in the United Kingdom, interest arrears would probably add to required provisioning levels, as they are one of the factors taken into account when deciding on the level of provisioning levels against sovereign risk. Topping up of earmarked reserves would reduce both book profits and capital, as these are not treated as part of capital in the United Kingdom.

For a Japanese bank, interest arrears do not have an immediate impact. They do not trigger provisioning, and income may be accrued for up to 180 days. In Germany, by contrast, although the rules for income accrual are very flexible--allowing interest to be accrued for 365 days--most banks behave more conservatively and are likely to respond to an accumulation of interest arrears by placing loans on a nonperforming basis, increasing provisions--unless they are already very high--and, if interest payments on the claims are resumed, using these cash receipts to apply against principal. In Switzerland, there is no fixed time after which accrual is disallowed, but once the eventual collection of interest becomes in doubt, banks must move to a cash accounting basis.

Other options which have generally been seen as an alternative to new concerted lending, rather than as complementing such lending, include interest capitalization and the outright granting of interest concessions. Interest capitalization has been favored by some banks, particularly in Continental Europe, partly on the grounds that it is easier for bank managements to accept it than to take an active decision to increase exposure through new money. Some banks also believe that the free rider problem would be lessened if this financing modality were used.

In many countries, capitalized interest is treated just as new money for supervisory purposes, in that it is shown as an increase in exposure which may have to be provided against. Japanese banks have indicated that, for this reason, in problem cases they may prefer an informal deferral of interest to formal capitalization. In systemic cases, they have favored explicit new money loans.

Banks in some countries face considerable uncertainty about the regulatory and accounting treatment of negotiated interest concessions. In Japan, there are no special supervisory rules for negotiated interest concessions. In the U.S., there has been no ruling yet concerning sovereign loans. In the case of domestic loans, a special accounting rule for troubled debt restructurings allows the principal value of a loan to be maintained at face value even if concessions are made on interest, provided that the total expected value of cash receipts on interest and principal exceeds the original contractual principal value of the loan. There has been no need as yet for regulators to take an overall view on this issue where such a restructuring would materially affect a bank's assets, as could be the case for a number of exposed banks if a major sovereign debtor were involved. There is some opposition from the SEC to the application of this ruling even in domestic business. Its application to sovereign loans of developing countries would probably require widespread government support.

A well-provided bank in Continental Europe may favor a negotiated concession on interest which makes ultimate loan collection more likely and improves the creditworthiness and prospects for debt servicing of an individual debtor. Any reduction in profit from the drop in interest receipts may not be an obstacle, as the bank may already be using a part or all of the interest receipts on those claims to add to provisions; moreover such a bank may not, for tax reasons, be trying to maximize short-term profits, while it may also view the lower income as more secure. In Germany, interest concessions by themselves would not trigger a writedown of claims, although banks are likely already to have written down claims on those debtors for whom concessions might be considered. Since provisions in Germany are specific and reduce banks' exposure, banks only need to fund the nonprovisioned proportion of their claims on troubled debtors. Interest rate concessions up to that extent would not therefore produce a running income loss.

A number of menu options and financing instruments have been designed to complement the provision of new money, such as debt conversion schemes which involve banks in selling loans or converting these into equity and, more recently, limited debt exchanges involving the securitization of loan claims. One issue raised by these instruments is that of portfolio contagion or contamination. For banks with larger exposures, disposing of a part of their claims on troubled debtors may be unattractive because of the implications for the valuation of the rest of their portfolio. Special treatment by some supervisors has, in practice, overcome this obstacle for particular new financing instruments, notably the Mexican debt exchange. In Japan, the authorities indicated that losses on this would be tax deductible, but the remaining portfolio would not be "contaminated." In the United States, it was made clear in a joint letter from the U.S. Federal bank supervisors to Mexico's legal counsel, that participating in the exchange through tendering a portion of eligible claims would not "contaminate" the rest of a bank's portfolio, and the tender would not have a wider impact on banks' balance sheets unless existing loan-loss reserves were judged to

be insufficient in light of the tender price. In other countries, such as Germany, Switzerland, and the United Kingdom, only those claims that were actually exchanged affected the banks' balance sheets.

Even if the issue of contamination is resolved, debt sales and exchanges at a discount from face value generally involve a loss on the exchanged claims, except for some banks in Continental Europe where provisioning has exceeded the secondary market discount, and a loan sale or exchange could involve a profit. In such cases, banks could, in some countries, choose to shift existing provisions to another debtor rather than take the profit. Since existing loan-loss reserves are tax deductible, there is in general no tax advantage for such banks in realizing a loss; taxable income would obviously increase if the loss were less than the reserves. For most major banks in the U.S., particularly the larger money center banks with high exposure, the level of provisions, by contrast, remains well below what would be needed to cover losses if loans were exchanged at current secondary market prices for most debtors. Moreover, reserves that were used to offset the loss would be removed from capital, thus worsening banks' capital asset ratios. Under certain circumstances, banks may, however, wish to realize a loss in order to receive a tax credit.

In Japan, loan sales generally are deemed to contaminate the rest of banks' portfolios, although with prior approval from the Ministry of Finance specific exceptions have been made to facilitate both the Mexican debt exchange and the Bolivian buy-back, as these have been viewed as promoting the present debt strategy. The Cayman Islands scheme has also explicitly used the mechanism of loan transfers to realize a tax deductible loss on the transferred claims without contaminating the rest of banks' portfolio of similar claims.

Another issue affecting banks' willingness to engage in debt exchanges is the regulatory treatment of the converted debt itself. In the United Kingdom, while the new Mexican bonds have, in practice, been deemed not to be subject to provisioning for supervisory purposes, they are included in the provisioning matrix as Mexican risk. The collateral provided by the zero coupon bond could, however, be used to justify lower provisioning levels when banks hold discussions with the supervisory authorities.

Under the normal accounting conventions in Canada, France, Germany, Switzerland and the United Kingdom, if debt is converted into securities the latter must be valued at market prices. Thus, banks could show a loss on the exchange of loan claims for bonds at an implicit discount, and a further loss if the bonds themselves declined in value. In the United States, banks have been given the flexibility to choose whether to disclose debt converted under the Mexican scheme as loans or as investment securities. For some banks, this flexibility may help overcome restrictions on lending limits. The initial valuation of the bonds would represent a "fair" or market value; the subsequent valuation would depend on how they were categorized--if booked as loans their

value would remain unchanged, whereas if booked as investments it would fluctuate with the market. In Japan, banks will probably have a choice once trading begins between valuing the bonds at face value or at market value.

For U.S. banks, loan swaps had been favored over loan sales by banks with large exposures as large-scale cash sales could swamp the secondary market for developing country debt and depress prices. Until 1985, the accounting treatment of such swaps appeared to allow more discretion in the valuation of remaining claims. After a 1985 ruling, this discretion was narrowed; moreover, losses from sales and swaps were supposed to be taken directly out of earnings and not from loan-loss provisions, as they were viewed as the result of a business decision to engage in the market rather than an unavoidable loss for credit risk reasons. Since the 1987 provisioning changes, banks have been able to use their loan-loss reserves to offset losses from secondary market operations. For banks with smaller exposures, loan sales may be more attractive as they can be used by the bank to liquidate a banks' entire portfolio, avoiding the issue of contamination and enabling the bank effectively to escape the obligation to participate in future new money packages.

In general, debt conversions through more traditional schemes have provided some banks with the opportunity to earn brokerage fees. Some larger banks have engaged in direct debt/equity swaps, although there are particular regulatory and tax obstacles in individual countries. In Japan, banks have generally not engaged in debt/equity swaps. In February 1988, the Japanese authorities clarified the tax treatment of debt/equity conversions by Japanese nonbanks. The authorities ruled that, provided such conversions are done in a single integrated transaction, discounted bank debt purchased on the secondary market would not be subject to capital gains taxes even if these claims were converted at, or near, their face value into equity. Prior to this ruling, the tax treatment was not clear and had hindered Japanese firms' participation in debt/equity schemes. This clarification was viewed by some observers as perhaps paving the way for greater participation in debt/equity swaps by Japanese firms. Moreover, it is becoming clearer that any losses incurred by banks as a result of debt exchanges and sales may be tax deductible.

In the United Kingdom, equity holdings require 100 percent capital cover and are thus unattractive for banks. In the United States, a number of changes have been made to facilitate debt/equity conversions by banks. Prior to August 1987, U.S. banks' equity participation in nonfinancial firms was limited to 20 percent of that firm's equity. After that, the Federal Reserve Board allowed U.S. banks under its authority to make equity investments up to 100 percent in nonfinancial companies in developing countries that had restructured their external debt since 1980, provided that the nonfinancial corporations were state-owned companies in the process of being privatized; ownership would have to be divested within five years (or ten years with special approval).

In February 1988, these rules were further relaxed by allowing U.S. banks to swap debt for up to 40 percent of the shares in any private sector nonfinancial company from a heavily indebted developing country so long as the bank does not hold the largest block of shares. The bank would be permitted to hold the investment for up to two years after the end of the period during which the debtor country restricts full repatriation of the investment, but not more than 15 years altogether. In addition, the Comptroller of the Currency has taken an even more liberal view, issuing two letters in 1988 that allowed debt to be exchanged for equity under the banks' statutory authority to take action to improve previously contracted debt. The underlying policy is that banks should be allowed to take actions that may improve their balance sheets.

For some major international banks, debt/equity swaps are an attractive option for portfolio diversification, and the removal of regulatory obstacles has encouraged the development of these schemes. Banks in other countries with fewer regional ties may not have the management capacity to make direct debt/equity swaps attractive.

Table 5. Bank Lending to Developing Countries, 1983-87 1/ 2/

(In billions of U.S. dollars; or in percent)

	1983	1984	1985	1986	1987
Developing countries	33.4	15.0	6.7	-0.5	16.5
Growth rate	6	3	1	--	3
Africa	5.0	--	1.5	-2.0	-1.4
Of which:					
Algeria	0.2	0.1	1.9	1.0	-0.4
Cote d'Ivoire	-0.1	-0.3	--	--	-0.1
Morocco	0.3	0.1	0.1	--	--
Nigeria	1.3	-0.4	-0.7	-0.2	-0.8
South Africa	3.0	-1.4	-0.3	-2.1	-0.2
Asia	8.9	8.0	6.8	5.0	13.1
Of which:					
China	0.8	1.3	4.8	0.7	4.8
India	0.9	0.1	1.7	0.3	0.9
Indonesia	2.6	0.7	--	0.6	0.9
Korea	2.0	3.5	2.2	-2.3	-5.6
Malaysia	1.9	1.4	-1.4	-0.5	-1.9
Philippines	-1.3	0.1	-0.5	-0.1	0.1
Europe	0.7	2.0	2.1	0.1	0.1
Of which:					
Greece	1.3	1.8	1.5	0.6	-0.3
Hungary	0.9	0.2	2.3	2.0	0.9
Turkey	--	0.9	0.5	1.5	1.5
Yugoslavia	--	0.2	0.2	-0.9	-1.0
Middle East	3.4	-0.9	-2.1	-2.4	0.9
Of which:					
Egypt	-0.7	0.6	-0.3	-0.1	-0.6
Israel	-0.3	-0.6	-0.8	-1.2	--
Western Hemisphere	15.2	6.0	-1.6	-1.1	3.8
Of which:					
Argentina	2.3	-0.2	0.5	1.2	0.8
Brazil	5.3	5.1	-2.9	--	3.9
Chile	0.3	1.2	0.2	-0.3	-1.5
Colombia	0.6	0.1	--	0.4	-0.7
Ecuador	0.2	-0.1	0.2	0.3	0.2
Mexico	2.8	1.6	-0.8	-0.8	0.9
Venezuela	-1.2	-2.2	0.5	-1.1	-0.3
Memorandum items					
Fifteen heavily indebted countries	11.5	5.4	-3.4	-1.3	1.6
Countries experiencing debt-servicing problems	8.1	4.0	-2.6	-8.9	1.9
Gross concerted lending disbursements 3/	13.3	10.7	5.4	3.3	5.7
Total, BIS-based	26.4	11.6	14.4	-2.6	2.1
Growth rate	7	2	3	-1	--
Gross bond issues	3.1	5.0	9.2	4.9	4.2

Sources: Bank for International Settlements (BIS); Organization for Economic Cooperation and Development; International Monetary Fund, International Financial Statistics; and Fund staff estimates.

1/ IMF-based data on cross-border lending by banks are derived from the Fund's international banking statistics (IBS) (cross-border interbank accounts by residence of borrowing bank plus international bank credits to nonbanks by residence of borrower), excluding changes attributed to exchange rate movements. BIS-based data are derived from quarterly statistics contained in the BIS's International Banking Developments; the figures shown are adjusted for the effects of exchange rate movements. Differences between the IMF data and the BIS data are mainly accounted for by the different coverages. The BIS data are derived from geographical analyses provided by banks in the BIS reporting area. The IMF data derive cross-border interbank positions from the regular money and banking data supplied by member countries, while the IMF analysis of transactions with nonbanks is based on data from geographical breakdowns provided by the BIS reporting countries and additional banking centers. Neither the IBS series nor the BIS series are fully comparable over time because of expansion of coverage.

2/ Excluding the seven offshore centers (The Bahamas, Bahrain, the Cayman Islands, Hong Kong, the Netherlands Antilles, Panama, and Singapore).

3/ Excluding bridge loans.

Table 6. Concerted Lending: Commitments and Disbursements, 1983-First Half 1988 1/

(In millions of U.S. dollars; classified by year of agreement in principle)

	1983		1984		1985		1986		1987		First Half 1988	
	Commitments	Disbursements	Commitments	Disbursements	Commitments	Disbursements	Commitments	Disbursements	Commitments	Disbursements	Commitments	Disbursements
Argentina												
Medium-term loan	1,500	500	3,700	—	—	2,500	—	1,200	1,550	1,050	—	350
Trade deposit facility	—	—	500	—	—	500	—	—	400	200	—	200
Brazil												
Medium-term loan	4,400	4,400	6,500	6,500	—	—	—	—	—	—		
New money bonds	—	—	—	—	—	—	—	—	—	—	1,000	—
Parallel financing with World Bank	—	—	—	—	—	—	—	—	—	—	2,850	—
Cofinancing with World Bank	—	—	—	—	—	—	—	—	—	—	750	—
Trade credit and deposit facility	—	—	—	—	—	—	—	—	—	—	600	—
Chile												
Medium-term loan	1,300	1,300	780	780	785	520	—	265	—	—	—	—
Cofinancing arrangement with World Bank	—	—	—	—	300 2/	194	—	106	—	—	—	—
Colombia												
Medium-term loan	—	—	—	—	1,000	—	—	970	—	—	—	—
Congo												
Medium-term loan	—	—	—	—	—	—	60	—	—	—	—	—
Costa Rica												
Revolving trade facility	202 3/	152	—	50	75	75	—	—	—	—	—	—
Cote d'Ivoire												
Medium-term loan	—	—	104	—	—	104	—	—	—	—	151	—
Ecuador												
Medium-term loan	431	431	200	—	—	200	—	—	350	—	—	—
Mexico												
Medium-term loan 5/	5,000	5,000	3,800	2,850	—	950	5,000	—	—	4,372 6/	—	600
Cofinancing arrangement with World Bank 5/	—	—	—	—	—	—	1,000 2/	—	—	—	—	—
Contingent investment support facility 7/	—	—	—	—	—	—	1,200	—	—	—	—	—
Growth contingency cofinancing with World Bank 8/	—	—	—	—	—	—	500 2/	—	—	—	—	500

Table 6. Concluded. Concerted Lending: Commitments and Disbursements, 1983-First Half 1988 1/

(In millions of U.S. dollars; classified by year of agreement in principle)

	1983		1984		1985		1986		1987		First Half 1988	
	Commitments	Disbursements	Commitments	Disbursements	Commitments	Disbursements	Commitments	Disbursements	Commitments	Disbursements	Commitments	Disbursements
Mozambique												
Medium-term loan	—	—	—	—	—	—	—	—	113	—	—	—
Nigeria												
Medium-term loan	—	—	—	—	—	—	320	—	—	—	—	—
Panama												
Medium-term loan	278	131	—	147	60	—	—	51	—	9	—	—
Peru												
Medium-term loan	450	250	—	100	—	—	—	—	—	—	—	—
Philippines												
Medium-term loan	—	—	925	—	—	400	—	525	—	—	—	—
Poland												
Short-term revolving trade credit facilities 5/	180	338	285	240	—	2	198	139	100	100	—	—
Uruguay												
Medium-term loan	240	240	—	—	—	—	—	—	—	—	—	—
Yugoslavia												
Medium-term loan	600	600	—	—	—	—	—	—	—	—		
Trade deposit facility	—	—	—	—	—	—	—	—	—	—	300	—
Total	14,761	13,342	17,079	10,667	2,220	5,447	8,218	3,256	2,513	5,731	5,651	1,650

Sources: Restructuring agreements; and Fund staff estimates.

1/ These data exclude bridging loans.
2/ These loans have an associated guarantee given by the World Bank in the later maturities equivalent to 50 percent of the nominal amount disbursed.
3/ Not an equiproportional concerted loan.
4/ Agreement in principle as of December 1982.
5/ Commitments in 1986 could have been disbursed upon contingencies only through June 30, 1988.
6/ A bridge loan of $500 million was disbursed in December 1986 and repaid when the first concerted lending disbursement of $3.5 billion was disbursed in April 1987.
7/ Commitments in 1986 could have been disbursed upon contingencies only through April 16, 1988.
8/ Commitmens in 1986 could have been disbursed upon contingencies only through March 30, 1988.
9/ Utilization of these facilities varied over time, but the amounts of the facilities had to be reconstituted on a six-month basis.

Table 7. Chronology of Bank Debt Restructurings and Bank Financial Packages, 1983-First Half 1988

Agreement classified by month of signature 1/

1983
- Zaire: January (deferment)
- Brazil: February 2/
- Malawi: March
- Sudan: April (modification of 1981 agreement)
- Bolivia: May, October (deferment)
- Romania: June
- Chile: July 2/
- Guyana: July (deferment)
- Nigeria: July, September
- Peru: July 2/
- Uruguay: July 2/
- Mexico: August 2/
- Panama: September 2/
- Costa Rica: September 2/
- Yugoslavia: September 2/
- Ecuador: October 2/
- Togo: October
- Poland: November 2/
- Argentina: December (new financing only)
- *Dominican Republic: December*

1984
- Brazil: January 2/
- Chile: January, June, and November
- Sierra Leone: January
- Guyana: January, July (deferment)
- Nicaragua: February (deferment)
- Peru: February 3/
- Senegal: February
- Niger: March
- Mexico: April (new financing only)
- Sudan: April (modification of 1981 agreement)
- Yugoslavia: May
- Jamaica: June
- Zaire: June (deferment)
- Poland: July 2/
- Madagascar: October
- Zambia: December 3/

1985
- Cote d'Ivoire: March 2/
- Mexico: March, August
- Costa Rica: May 2/
- Senegal: May
- Philippines: May 2/
- Zaire: May (deferment)
- Guyana: July (deferment)
- Argentina: August 2/
- Jamaica: September
- Panama: October 2/
- Sudan: October (modification of 1981 agreement)
- Chile: November 2/
- Colombia: December 5/
- Ecuador: December 2/
- Yugoslavia: December

1986
- Dominican Republic: February
- Morocco: February
- Venezuela: February
- South Africa: March (standstill)

1986 (Continued)
- Niger: April
- Zaire: May (deferment)
- Brazil: July
- Uruguay: July
- Poland: September 2/
- Romania: September
- Congo: October 2/ 3/
- Cote d'Ivoire: December

1987
- South Africa: March
- Mexico: March (public sector debt) 2/, August (private sector debt)
- Jamaica: May
- Mozambique: May 3/
- Zaire: May (deferment)
- Chile: June
- Honduras: June 3/
- Argentina: August 2/
- Poland: August 3/
- Morocco: September
- Romania: September 6/
- Bolivia: November (amendment to the 1981 agreement)
- Ecuador: November 2/ 3/
- Nigeria: November 2/
- Venezuela: November
- Gabon: December 4/
- The Gambia: December
- Philippines: December

1988
- The Gambia: January
- Chile: March (amendment to the 1987 agreement) 3/
- Uruguay: March (amendment to the 1986 agreement)
- Cote d'Ivoire: April 2/ 3/
- Guinea: April
- Malawi: April 3/
- Yugoslavia: April 2/ 3/
- Brazil: June 2/ 3/

Under negotiation

- Bolivia
- Costa Rica
- Togo
- Guatemala

Note: "Restructuring" covers rescheduling and also certain refinancings of member countries.

Sources: Restructuring agreements; and Fund staff estimates.

1/ Agreement either signed or reached in principle (if signature has not yet taken place); not all signed agreements have become effective.
2/ The restructuring agreement includes new financing.
3/ Agreed in principle or tentative agreement with banks' Steering Committees.
4/ A separate club deal for new financing was arranged at the same time.
5/ New financing only, semi-spontaneous.
6/ Modification of 1986 agreement.

Table 8. Amounts of Long-Term Bank Debt Restructured, 1983-First Half 1988 1/

(In millions of U.S. dollars; classified by year of agreement in principle)

	1983	1984	1985	1986	1987	First Half 1988
Argentina	—	14,200	—	—	29,500 2/	—
Bolivia	(309) 3/	—	—	—	—	—
Brazil	4,452	4,846	—	6,671 4/	—	61,000
Chile	2,169	1,160	6,007	—	5,902 2/	6,987 5/
Congo	—	—	—	217	—	—
Costa Rica	709	—	440	—	—	—
Cote d'Ivoire	—	501	—	691 2/	—	2,211
Dominican Republic	500	—	787 6/	—	—	—
Ecuador	1,835	—	4,260 2/	—	4,683 7/	—
Gabon	—	—	—	—	39	—
Gambia, The	—	—	—	—	19	—
Guinea	—	—	—	—	43	—
Guyana	(24) 3/	(35) 3/	(47) 3/	(57) 3/	—	—
Honduras	—	—	—	—	235	—
Jamaica	—	165	195	—	366 2/	—
Madagascar	—	195	—	—	—	—
Malawi	57	—	—	—	—	33 2/
Mexico	18,800	48,700 2/	(950) 3/	43,700 2/	—	—
Morocco	—	—	538	2,174	—	—
Mozambique	—	—	—	—	140 8/	—
Nicaragua	—	(145) 3/	—	—	—	—
Niger	—	27	—	52 9/	—	—
Nigeria	1,935	—	—	4,250 10/	—	—
Panama	—	—	579	—	—	—
Peru	380	460	—	—	—	—
Philippines	—	5,885 11/	—	—	9,010 2/	—
Poland	1,154	1,390	—	1,970	8,441 2/	—
Romania	567	—	—	800	800 12/	—
Senegal	—	78	20	—	—	—
Sierra Leone	—	25	—	—	—	—
South Africa	—	—	—	(9,800) 3/	10,900	—
Sudan	790 13/	838 14/	920 13/	—	—	—
Togo	84	—	—	—	—	—
Uruguay	216	(104) 3/	—	1,958 2/	2,058	1,769 14/

Table 8 (Concluded). Amounts of Long-Term Bank Debt Restructured, 1983-First Half 1988 1/

(In millions of U.S. dollars; classified by year of agreement in principle)

	1983	1984	1985	1986	1987	First Half 1988
Venezuela	—	21,088 2/	—	—	20,338 2/	—
Yugoslavia	950	1,250	3,949 2/	—	—	—
Zaire	(58) 3/	(64) 3/	(61) 3/	(65) 3/	(61) 3/	—
Zambia	—	74	—	—	—	—
Total 15/	34,598	100,882	17,695	62,483	92,474	72,000

Sources: Restructuring agreements; and Fund staff estimates.

1/ Including short-term debt converted into long-term debt.
2/ Multiyear rescheduling agreement (MYRA).
3/ Deferment agreement.
4/ Excluding $9.6 billion in deferments corresponding to maturities due in 1986.
5/ Amendment to the 1987 restructuring agreement and to the 1985 new money and cofinancing arrangements.
6/ Consists of MYRA for maturities of $707 million falling due in 1985-89 and restructuring of $79.8 million of arrears at the end of 1984.
7/ Modification of 1985 MYRA.
8/ Including consolidation of $86.2 million in short-term debt into a medium-term loan.
9/ Preliminary number.
10/ Including $321 million of interest and late interest arrears which will have to be paid back in equal monthly installments in the period between the signing of the agreement and the end of 1987.
11/ Short-term debt—other than the trade facility—was consolidated into a medium-term loan under the 1984/85 restructuring.
12/ Modification of 1986 agreement.
13/ Modification of 1981 agreement.
14/ Modification of 1986 agreement and restructuring of maturities falling due in 1990-91 according to the pre-1986 MYRA payment schedule.
15/ Totals exclude amounts deferred, which are given in parentheses.

Table 9. Average Spreads on Bank Financial Packages for Developing Countries

(In basis points over LIBOR)

	1983	1984	1985	1986	1987	First Half 1988
Spontaneous commitments 1/	80	71	71	61	48	56 2/
Concerted commitments 3/						
All	225	185	179	84	90	83
Three largest debtors 4/	225	186	...	81	88	81
Others	223	174	179	140	103	108
Restructuring of existing debt 3/						
All	194	129	136	96	80	83
Three largest debtors 4/	193	126	...	85	81	81
Others	196	134	136	141	79	88
Memorandum items:						
Difference between spreads						
Concerted/spontaneous	145	114	108	23	42	...
Restructuring/spontaneous	115	58	65	35	32	...
Concerted/restructuring	30	56	43	-12	10	--
Largest/others						
Concerted	2	12	...	-59	-15	-27
Restructurings	-2	-8	...	-56	2	-7

Sources: Organization for Economic Cooperation and Development, Financial Market Trends; and Fund staff estimates.

1/ Weighted average of nonconcerted bank commitments to "Other LDCs" and "Oil-exporters" as defined by the OECD.
2/ First quarter 1988.
3/ Based on term sheets agreed in principle.
4/ Argentina, Brazil, and Mexico.

Table 10. Concerted Short- and Medium-Term Facilities Outstanding at End of Period, 1983-First Half 1988

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	First Half 1988
Argentina						
Trade deposit facility	—	—	500	500	500	700
Stand-by money market facility	—	1,400	1,400	1,400	1,400	1,400
Trade credit maintenance facility	—	1,200 1/	1,200 1/	1,200 1/	1,200 1/	1,200
Brazil						
Interbank exposure	5,579	5,388	5,388	5,253	4,651 2/	4,651
Trade-related	10,172	9,800	9,800	9,582	10,189 2/	10,189
Interim financing	—	—	—	—	715	240
Chile						
Trade-related	1,700	1,700	1,700	1,700	1,700	1,700
Nontrade-related	1,160	(1,160) 3/	—	—	—	—
Costa Rica						
Revolving trade facilities	152	202	277	277	277	277
Ecuador						
Trade-related credits	700	700	700	700	500	500
Nontrade credits	(580) 3/	—	—	—	—	—
Madagascar						
Short-term debt	—	(117) 3/	—	—	—	—
Mexico						
Interbank exposure 4/	5,200	5,200	5,200	5,200	5,200	5,200
Morocco						
Short-term debt	—	610	610	610	610	610
Trade credit maintenance facility	—	—	—	80 1/	80 1/	80 1/
Mozambique						
Short-term debt	—	—	—	—	(86) 3/	—
Panama						
Money-market facility	133	133	133	133	133	133
Trade-related facilities	84	84	84	84	84	84

Table 10 (Concluded). Concerted Short- and Medium-Term Facilities Outstanding at End of Period, 1983-First Half 1988

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	First Half 1988
Peru						
Short-term working capital	1,200	965 5/	... 5/	... 5/	... 5/	... 5/
Short-term trade-related credit lines	800	800 5/	... 5/	... 5/	... 5/	... 5/
Philippines						
Short-term debt of						
Public sector	—	(1,183) 3/	—	—	—	—
Private financial sector	—	(1,594) 3/	—	—	—	—
Corporate sector	—	(448) 3/	—	—	—	—
Revolving trade facility	—	2,965	2,965	2,965	2,965	2,965
Poland						
Short-term revolving trade credit facilities	534	774	772	900	1,000	1,000
Uruguay						
Nontrade-related credits	(359) 3/	—	—	—	—	—
Treasury notes outstanding	84	128	171	171	171	171
Yugoslavia						
Revolving trade facility	600	600	600	600	600	600
Nontrade-related facility	200	200	200	200	200	200
Total 6/	28,298	32,849	31,700	31,555	32,175	31,900

Sources: Restructuring agreements; and Fund staff estimates.

1/ Converted into medium-term facility.
2/ Brazilian authorities have requested the maintenance of this facility, which initially expired in March 1987.
3/ Converted into medium-term debt.
4/ Data indicate limits rather than actual exposure.
5/ The 1984 agreement with the Steering Committee was not signed due, inter alia, to Peru's nonpayment of interest since July 1984, and no agreement is currently in effect for these facilities.
6/ Total excludes amounts converted into medium-term debt, which are given in parentheses.

Table 11. Terms and Conditions of Bank Debt Restructurings and Financial Packages, 1986-First Half 1988 1/

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ millions)	(In years, unless otherwise noted)		(In percent spread over LIBOR-US prime)
Argentina					
Agreement in principle of April 24, 1987; final agreement August 1987:					
Rescheduling of public and private sector indebtedness 2/	100 percent of principal	25,300	7	19	13/16
Rescheduling of 1983 and 1985 term credit agreements	100 percent of principal	4,200	5	12	13/16
New medium-term loan	New financing	1,550	5	12	7/8
New trade credit and deposit facility	New financing	400	--	4	7/8
Amendment to trade credit and deposit facility of 1985	Maturity lengthened to coincide with 1987 trade credit deposit facility	500	--	4	13/16
Trade credit maintenance facility	Banks will continue to maintain trade credit at levels of September 30, 1984 (estimate)	1,200	--	2	13/16
Stand-by money market facility	Banks will continue to make available to the Central Bank on request any amounts outstanding to foreign branches and agencies of Argentine banks on September 30, 1984	1,400	--	2	3/4
Brazil					
Agreement of July 25, 1986					
Rescheduling of medium- and long-term due in 1985	100 percent of principal	6,671	5	7	1 1/8
Deferment of medium- and long-term due in 1986	100 percent of principal	9,600	...	to March 1987	Original rates
Maintenance of trade and interbank lines	100 percent rollover	14,750	...	to March 1987	Original rates
Agreement with Advisory Committee of June 22, 1988 3/					
Rescheduling of public and private debt 4/ falling due in 1987-93	100 percent of principal	61,000	7	19	13/16
New medium-term financing 5/	New financing	4,600	5	12	13/16
New medium-term trade credit and deposit facility	New financing	600	9	9	13/16
Short-term trade credit facility 6/	Banks will maintain trade credit at their 1986 commitment level	10	--	2 1/2	1/8 - 3/4
Interbank facility 6/	Banks will maintain interbank at their 1986 commitment level	5	--	2 1/2	5/8
Chile					
Agreement of June 17, 1987 7/					
Amendment to 1983-87 restructuring agreements	100 percent of principal falling due in 1988-90	2,951	5	15 1/2	1
Amendments to 1983-84 new money agreements	100 percent of principal falling due in 1988-90	1,416	3	5	1 1/8
1988-91 unrescheduled original maturities	100 percent of principal	1,535	5	15 1/2	1
Extension of short-term trade related facility until end-1989	100 percent rollover	1,700	--	2	1 3/8 - 1 1/8
Agreement in principle of March 22, 1988					
Amendments to the restructuring agreements of June 17, 1987					
1983-84 and 1985-91 restructuring agreements 9/	Unchanged	4,486	Unchanged	Unchanged	13/16 8/
1983-85 new money agreements and 1983 cofinancing agreement 9/ 10/	Unchanged	2,501	Unchanged	Unchanged	7/8 8/

Table 11 (continued). Terms and Conditions of Bank Debt Restructurings and Financial Packages, 1986-First Half 1988 1/

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ millions)	(In years, unless otherwise noted)		(In percent spread over LIBOR-US prime)
Congo					
Agreement in principle of October 15, 1986, signed in February 1988					
Rescheduling of public sector debt falling due in 1986-88	100 percent of principal	217	3	9	1 7/8 - 1 1/2
New medium-term loan	New financing	60	2 1/2	8	1 7/8 - 1 1/2
Cote d'Ivoire					
Agreement with Steering Committee of May 21, 1986,					
Agreement of December 1986					
Public and publicly guaranteed medium- and long-term debt:					
Due in 1986	80 percent of principal	200	3	9	1 5/8 - 1 3/8
Due in 1987	70 percent of principal	196	3	9	1 5/8 - 1 3/8
Due in 1988	60 percent of principal	170	3	9	1 5/8 - 1 3/8
Due in 1989	50 percent of principal	125	3	9	1 5/8 - 1 3/8
Agreement in principle of April 29, 1988					
Rescheduling of public and private eligible debt 11/					
In arrears as of end-1987	100 percent of principal	111	5	14 1/2	1 1/4
Falling due in 1988-95	100 percent of principal	2,100	5	14 1/2	1 1/4
New medium-term loan	New financing	151	4	8	1 1/2
Dominican Republic					
Agreement of February 24, 1986					
Rescheduling of public and private debt					
In arrears as of December 31, 1984	100 percent of principal	80	3	13	1 3/8
Due in 1985-89	100 percent of principal	707	3	13	1 3/8
Ecuador					
Agreement with Steering Committee of November 25, 1987					
Rescheduling of 1983 and 1985 new money agreements	100 percent of principal	631	3	10	1
Rescheduling of maturities under 1985 MYRA and other rescheduling agreements	100 percent of principal	4,052	7	19	15/16
New medium-term loan	New financing	350	2	8	1
Gabon					
Agreement in principle of June 4, 1987; final agreement of December 1987					
Rescheduling of principal due September 21, 1986-December 31, 1988	100 percent of principal	39	4	9	1 3/8
Gambia, The					
Agreement in principle of May 27, 1987; final agreement of February 15, 1988					
Rescheduling of public debt outstanding as of December 18, 1986	100 percent of principal	19	3 1/2	8	1 1/4
Guinea					
Agreement in principle of November 1987; final agreement of April 20, 1988					
Restructuring of short- and medium-term debt outstanding	70 percent of principal	43	1/2	3	1 3/4

Table 11 (continued). Terms and Conditions of Bank Debt Restructurings and Financial Packages, 1986-First Half 1988 1/

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ millions)	(In years, unless otherwise noted)		(In percent spread over LIBOR-US prime)
Honduras					
Agreement in principle of June 26, 1987:					
Restructuring of principal and interest in arrears as of March 1987	100 percent of principal	219	6	8	1 1/8 12/
Restructuring of principal falling due in 1987-89	100 percent of principal	29	6	8	1 1/8 12/
Jamaica					
Agreement of May 7, 1987					
Rescheduling of maturities falling due April 1985 to end-1986	100 percent of principal	185	1 1/2	8 1/2	1 1/4
Rescheduling of maturities falling due January 1987 to March 31, 1990	100 percent of principal	180	9	12 1/2	1 1/4
Malawi					
Agreement in principle of April 26, 1988					
Rescheduling of public or publicly guaranteed debt outstanding as of August 21, 1987	100 percent of principal	33	4	8	1 1/4
Mexico					
Agreement with Steering Committee of September 30, 1986, final agreement of April 1987					
Restructuring of previously restructured debt	100 percent of principal	43,700	7	20	13/16
Change in spread for 1983 and 1984 new money facilities 13/	--	8,600	5	10	13/16
1986-87 new money facility	New money	5,000	5	12	13/16
Cofinancing arrangement with World Bank 14/	New money	1,000	9	15	13/16
Growth contingency cofinancing with World Bank 14/	New money	500	7	12	13/16
Contingent investment support facility	New money	1,200	4	8	13/16
Agreement of August 14, 1987					
Private sector debt under Forward Coverage Scheme (FICORCA)	100 percent of principal	... 15/	7	20	13/16
Morocco					
Agreement of February 1986					
Medium- and long-term debt due from September 9, 1983 to December 31, 1983	100 percent of principal)	3	7	1 3/4	
Medium- and long-term debt due in 1984	90 percent of principal)	538	3	7	1 3/4
Rollover of short-term debt	Trade related credit outstanding as of August 24, 1987	610	--	--	--
Agreement in principle of December 15, 1986 (signed on September 23, 1987, made effective on January 4, 1988):					
Rescheduling of medium- and long-term debt not previously rescheduled falling due from 1985-88	100 percent of principal	1,546	4	11	1 3/16
Rescheduling of principal payments due in 1987-88 under previous rescheduling agreement	100 percent of principal	178	4	4	1 3/4
Conversion of short-term trade credits (except letters of credit) into medium-term debt	Trade-related credit outstanding as of August 24, 1983	450	--	6	1 3/16
Consolidation of trade arrears due to banks into a trade credit maintenance facility	Arrears as of September 30, 1986	188 16/	--	5 1/2	Original rates

Table 11 (continued). Terms and Conditions of Bank Debt Restructurings and Financial Packages, 1986-First Half 1988 1/

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ millions)	(In years, unless otherwise noted)		(In percent spread over LIBOR-US prime)
Mozambique					
Agreement in principle of May 27, 1987					
Refinancing of trade-related and other short-term public sector debt	100 percent of principal outstanding on May 27, 1987	86	5	8	1 1/8
Restructuring of medium-term public sector debt	100 percent of principal outstanding on May 27, 1987	54	8	15	1 1/8 17/
Restructuring of all non-principal overdue amounts of the two above agreements	100 percent of arrears as of June 30, 1987	113	8	12	1 1/8 17/
Niger					
Agreement of April 1986:					2 percent
Serial rescheduling of medium-term debt:					
Due October 1, 1985-December 31, 1986	90 percent of principal, excluding previously rescheduled debt	23	4 1/2	8 1/2	Originally contracted rate plus 2 percent
Due 1987		17	4	8 1/2	
Due 1988		12	4	8 1/2	
Nigeria					
Agreement in principle of November 1986; signed on November 23, 1987:					
Rescheduling of medium- and long-term debt falling due from April 1, 1986 to December 31, 1987	100 percent of principal	1,725	3	9	1 1/4
Arrears as of September 26, 1986	Letters of credit confirmed before September 26, 1986 and associated new interest	2,525	1	4	1 1/4
New medium-term loan 18/	New financing	320	3	7	1 5/16
Philippines					
Agreement in principle of March 27, 1987; final agreement of December 1987:					
Rescheduling of public and publicly guaranteed debt:					
Due January 1, 1987-December 31, 1992	100 percent of principal	2,762	7 1/2	17	7/8
Due January 1, 1989-December 31, 1994 under 1985 restructuring agreement	100 percent of principal	3,963	7 1/2	17	7/8
Rescheduling of private financial sector debt:					
Due January 1, 1987-December 31, 1992	100 percent of principal	13	6	10	1 3/8
Due January 1, 1989-December 31, 1992 under 1985 restructuring agreement	100 percent of principal	1,172	6	10	1 3/8
Rescheduling of private corporate debt:					
Due January 1, 1987-December 31, 1992	100 percent of principal	653	6	10	1 3/8
Due January 1, 1990-December 31, 1992 under 1985 restructuring agreement	100 percent of principal	447	7 1/2	17	7/8
Extension of short-term trade-related facility until June 30, 1991	100 percent rollover	2,965	4 1/2	5	3/4
Change in spread for 1985 new medium-term loan	--	925	unchanged	unchanged	7/8

Table 11 (continued). Terms and Conditions of Bank Debt Restructurings and Financial Packages, 1986-First Half 1988 1/

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ millions)	(In years, unless otherwise noted)		(In percent spread over LIBOR-US prime)
Poland					
Agreement of September 1986:					
Restructuring of medium- and long-term debt included in April and November 1982 agreements					
Due in 1986	95 percent of principal	915	4	4	1 3/8
Due in 1987	80 percent of principal	1,055	4	4	1 3/8
Agreement in principle of August 1987:					
Rescheduling of maturities falling due in 1987-90, including previously restructured debt	100 percent of principal	5,219	1	15	15/16
Rescheduling of maturities falling due in 1991-93, including previously restructured debt	100 percent of principal	3,082	6	15	15/16
Modification of the 1986 restructuring agreement covering payments falling due in 1987	50 percent of principal	140	--	2	15/16
Romania					
Agreement of September 1986:					
Maturities on loans already rescheduled in 1982-83 falling due in					
1986	100 percent of principal	350	3	4 1/2	1 3/8
1987	85 percent of principal	450	4	5 1/2	1 3/8
Agreement in principle of September 1987					
Change in spread of 1986 restructuring agreement	Unchanged	800	Unchanged	Unchanged	7/8
South Africa					
First interim debt arrangement of March 25, 1986					
Short- and medium-term debt subject to September 1985 standstill originally due August 28, 1985 to June 30, 1987	About 95 percent of principal	9,800	1 1/4	1 1/4	)Margin applicable)in August 1985)plus a maximum)additional spread)of up to 1 per-)centage point))))
Second interim debt arrangement of March 24, 1987					
Short- and medium-term debt subject to September 1985 standstill due June 30, 1987 to June 30, 1990	About 87 percent of principal	10,900	3	3	
Uruguay					
Agreement of July 1986:					
Maturities falling due in 1985-1989 and not previously restructured	100 percent of principal	844	3	12	1 3/8
Previously restructured maturities falling due in 1985-1989	100 percent of principal	621	3	12	1 5/8
Medium-term loan granted in 1983	100 percent of principal	230	3	12	1 5/8
Bearer Treasury bonds	100 percent of principal	263	3	12	1 3/8
Agreement of March 1988					
Modification of July 1986 agreement and restructuring of maturities falling due in 1990-91 according to the pre-MYRA 1986 payment schedule	100 percent of principal	1,769	3	17	7/8
Venezuela					
Agreement with Steering Committee of February 27, 1987 (final agreement of November 1987):					
Modification of February 1986 rescheduling agreement	100 percent of principal	20,338	--	13	7/8

Table 11 (concluded). Terms and Conditions of Bank Debt Restructurings and Financial Packages, 1986-First Half 1988 1/

Country, Date of Agreement, and Type of Debt Rescheduled	Basis	Amount Provided	Grace Period	Maturity	Interest Rate
		(US$ millions)	(In years, unless otherwise noted)		(In percent spread over LIBOR-US prime)
Yugoslavia					
Tentative agreement with bank coordinating committee of April 20, 1988					
Rescheduling of the stock of medium- and long-term debt	100 percent of principal	6,895	5	18	13/16
New trade deposit facility	New financing	300	5	5	7/8
Zaire 19/					
Deferment agreement of May 1986 20/	Principal	65	...	...	Originally contracted rate
Deferment agreement of May 1987 21/	Principal	61	...	...	Originally contracted rate
Memorandum item:					
Non-Fund member					
North Korea:					
Agreement in principle of September 1987					
Rescheduling of arrears	...	770	4	12	1 3/4 22/

Sources: Restructuring agreements, press reports; and Fund staff calculations.

1/ Arrangements approved (in principle or definitely) before January 1, 1986 were reported in International Capital Markets: Developments and Prospects, 1986, December 1986.

2/ For public debt pre-December 9, 1982 debt originally falling due prior to January 1, 1986 that has been previously restructured and debt originally falling due after December 31, 1985 that has not been previously restructured. Excluded is indebtedness under the 1983 and 1985 term credit agreements and the 1985 trade credit and deposit facility which is rescheduled on different terms. For private sector borrowers, the restructuring of principal maturities of pre-December 9, 1982 indebtedness maturing subsequent to December 31, 1985, including previously restructured maturities.

3/ The agreement provides also for repricing and retiming of public sector debt. The savings to Brazil from repricing, which will consist of a reduction in the spread over LIBOR from their current range (1.125-2.414) to 13/16, are estimated at US$100 million in 1988 and US$380 million in 1989. Retiming of interest periods from a quarterly to a six monthly basis is estimated to provide cash relief of US$600 million in 1988.

4/ Excluding: (i) about US$1 billion corresponding to repayments on voluntary lending after January 1, 1983 falling due in 1988-93; and (ii) amounts under switching operations (see footnote 4).

5/ Includes at least US$2,850 million in parallel financing with the World Bank; two cofinancing facilities with the World Bank for up to US$500 million and US$210 million, respectively; and new money bonds for up to US$1 billion.

6/ Banks will be permitted to switch up to US$1.8 billion of interbank commitments to trade commitments during 1988-90.

7/ Interest periods under all agreements were temporarily converted from the existing periods to periods of 12 months providing cash relief in 1988 of an estimated $415 million.

8/ Spreads and guarantee fees would revert to their previous levels should Chile ask for new money "on a concerted basis" before end-1989.

9/ Amendments also allow for: debt/debt exchanges and debt buy-backs; repayments in Chilean currency; and the pledge of collaterals to facilitate debt exchanges, hedging operations, and the raising of voluntary new money. New money may be collateralized in amounts of up to US$100 million in 1988, US$200 million in 1989, and US$200 million per year, thereafter, with an aggregate limit of US$500 million outstanding at any one point after 1989. No more than US$200 million of new money can be collateralized with exportable assets. The limit on collateral for risk-management techniques is US$150 million. Up to US$500 million may be used in cash buy-backs or in exchange of new collateralized debt for old; no more than US$2 billion of existing debt may be extinguished in this manner.

10/ Amendments to the 1985 new money agreement also allow for an increase, as of January 1, 1989, of US$35 million in relending. In order to facilitate the reduction in spreads, the fee paid by banks on the World Bank guarantee, under the 1985 cofinancing agreement, was reduced by 1/4 percentage point.

11/ Eligible debt includes debt contracted before November 1, 1988 and previously rescheduled obligations.

12/ If on December 31, 1986 Honduras is current in its payment obligations, the margin over LIBOR will be reduced to 1 percentage point.

13/ Including the restructuring of the $950 million prepayment which had been deferred since October 1, 1985.

14/ These loans have an associated guarantee given by the World Bank in the later maturities equivalent to 50 percent of the nominal amount disbursed.

15/ Amount still to be determined. Amortization of rescheduled amounts subject to relending at the choice of creditors, but within certain limits of the domestic credit program established by the Mexican authorities.

16/ In the event, only US$80 million was consolidated.

17/ Spread will increase to 1 1/4 percentage points at the end of the grace period.

18/ Initial maturity of one year and a spread of 1 1/4 percent; will be automatically converted to a medium-term loan if certain conditions are fulfilled.

19/ Bank debt refinancing agreement covers only syndicated loans (and other floating rate loans) without creditor country guarantee.

20/ Under this agreement Zaire would make monthly payments amounting to $3.5 million for the period May 1986-April 1987.

21/ There will be monthly payments of $3 million for the May 1987-May 1988 period, except for July 1987 when the due payment is $3.5 million.

22/ The spread over LIBOR is expected to remain 1 3/4 percentage points for the first three years, and then decline to 1 1/2 percentage points for the next five years, and to 1 1/4 percentage points for the final four years, subject to the borrowers' compliance with the terms and conditions of the agreement.